INTERNATIONAL LEADERSHIP BY A CANADA STRONG AND FREE

International Leadership by a Canada Strong and Free

Mike Harris & Preston Manning

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Mike Harris was born in Toronto in 1945, and was raised in Callander and North Bay, Ontario. Prior to his election to the Ontario Legislature in 1981, Mike Harris was a schoolteacher, a School Board Trustee and Chair, and an entrepreneur in the Nipissing area.

On June 8, 1995, Mike Harris became the twenty-second Premier of Ontario following a landslide election victory. In 1999, he was re-elected—making him the first Ontario Premier in over 30 years to form a second consecutive majority government.

After leaving office in April 2002, Mr. Harris joined the law firm of Goodmans LLP as a Senior Business Advisor. He is also President of his own consulting firm, Steane Consulting Ltd., and acts as a consultant to various Canadian companies. Mr. Harris serves as a Director on several corporate Boards including Magna International Inc., Canaccord Capital Inc., and FirstService Corporation, and is Chair of the Board of Trustees for the Chartwell Seniors Housing REIT. He is also a Director on the Boards of the Tim Horton Children's Foundation and the Mount Royal College Foundation.

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Preston Manning served as a Member of the Canadian Parliament from 1993 to 2001. He founded two new political parties—the Reform Party of Canada and the Canadian Reform Conservative Alliance—both of which became the Official Opposition in the Canadian Parliament. Mr. Manning served as Leader of the Opposition from 1997 to 2000 and was also his party's critic for Science and Technology.

Since retirement from Parliament in 2002, Mr. Manning has released a book entitled *Think Big* (published by McClelland & Stewart) describing his use of the tools and institutions of democracy to change Canada's national agenda. He has also served as a Senior Fellow of the Canada West Foundation and as a Distinguished Visitor at the University of Calgary and the University of Toronto. He is currently a Senior Fellow of The Fraser Institute and President of the Manning Centre for Building Democracy.

Mr. Manning continues to write, speak, and teach on such subjects as the revitalization of democracy in the Western world, relations between Canada and the United States, strengthening relations between the scientific and political communities, the revitalization of Canadian federalism, the regulation of the genetic revolution, and the management of the interface between faith and politics.

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Of course, we take full responsibility for the ideas and interpretations presented here. While we have relied on the insights of many, we set the analysis and the policy choices this document reflects.

INTERNATIONAL LEADERSHIP BY A CANADA STRONG AND FREE

EXECUTIVE SUMMARY

Volume 1 of this series, *A Canada Strong and Free*, advanced a fresh vision for Canada. It imagined a nation whose people enjoy the highest quality of life in the world, are sustained by the world's best-performing economy, exercise freedoms guaranteed by the best-governed democratic federation on earth, and play a positive role in international affairs. Subsequent volumes proposed practical steps Canadians can take to achieve these goals.

In this fifth volume of the Canada Strong and Free series, we call for Canada to reclaim its leadership role in the international arena. We believe that by concentrating on three foreign policy priorities Canada can significantly advance its national interests and international influence. These priorities must be: to champion and practise freer trade (Chapter 2); to advance our relationship and deepen our influence with the United States (Chapter 3); and to give effective help to people living in nations less fortunate than our own (Chapter 4).

Our proposals rest on four criteria. Canada's policies abroad must be effective, focused, appropriate, and empowering.

Effective in that above all, Canada must achieve what it sets out to do. To be effective as a middle power Canada must focus its limited assets of wealth, force, and influence. We must employ strategies, tactics, targets, and agencies that are appropriate to our goals. Lastly, in keeping with our democratic values, our efforts must empower both Canadians and others to freely pursue their own interests.

SPECIFIC POLICY RECOMMENDATIONS

THE SECRET OF OUR SUCCESS: INTERNATIONAL TRADE

Freer trade offers the most effective means to increase Canadian prosperity and empower our citizens. It offers a compelling focus for action. We believe the following steps are appropriate:

- Eliminate the last vestiges of the protectionist mindset, from supply management and business subsidies to ownership restrictions in transportation, telecommunications, and financial services to allow Canadian firms to become more productive and competitive in international markets.

- Pursue a customs union and common external tariff with the United States, using the process to lower remaining tariffs and reduce cross-border transaction costs.

- Institute full cost recovery from clients of government export promotion programs including the Export Development Corporation. The long-term goal should be to hand over such activities to private sector institutions.

- Let markets decide with whom Canadians trade, either as exporters or as consumers. Ideologically driven efforts to diversify trade patterns substitute political and bureaucratic preference for market judgment and misdirect rather than focus Canadian trade initiatives.

- Government should continue to support Canadian exporters by working to expand market access, resolve other specific problems where possible, and fully exercise Canada's trade agreement rights. At the same time, Canada should live up to its own commitments and ensure that our domestic market is fully open to foreign competition.

THE ESSENTIAL RELATIONSHIP: CANADA AND THE UNITED STATES

The central importance of good US-Canada relations to Canada's interests across virtually every domestic and international issue requires that the federal government make that relationship its highest international priority. Canada's place in the world increasingly depends on its ability to gain and exert influence in Washington, while the ability of our national government to advance the security and prosperity of all Canadians depends critically on working jointly with Americans. The combined impact of new global threats and deepening cross-border integration points to a need for Canada and the United States to update the architecture of their relationship and ensure the development of a joint approach to the governance of their common economic and security space. Our recommendations are:

- In order to place the Canada-US security relationship on the most mutually advantageous basis, the federal government should revisit the decision not to participate in the Ballistic Missile Defence program and not to broaden the mandate of NORAD.

- The two governments need to work together to create a more open and more secure common border for the movement of people and goods.

- In order to facilitate the integrated coordination of their two economies, the two governments need to create a customs union involving a common external tariff, a joint approach to the treatment of third-country goods, a fully integrated energy market, a common approach to trade remedies, and an integrated government procurement regime.

- Gaining maximum advantage from economic integration requires that Canada and the United States work together to promote regulatory convergence.

- Canada should seek to negotiate with the United States a comprehensive agreement embracing all of the foregoing and to institutionalize measures to realize the greatest possible benefits from such an agreement for both our nations.

HELP THAT WORKS: REFORMING CANADIAN FOREIGN AID

Foreign aid targets should be defined in terms of achieving specific poverty-reduction and development outcomes, rather than in terms of achieving input targets such as targeting some arbitrary percentage of GDP to spend on foreign aid. Our foreign aid should also be directed at supporting policies and institutions that have a proven track record of increasing prosperity and improving people's lives. Our recommendations are:

- Adopt the Tools of Wealth Creation (TWC) approach as the centerpiece of development aid, to equip poor people with the resources to pull themselves out of poverty. This approach focuses on broadening the distribution of:
    - Property rights;
    - Access to capital;
    - Human capital development;
    - Access to technology; and
    - Access to trade markets.

- Use Public-Private Partnerships, where appropriate, to undertake projects that would otherwise be unfeasible in developing countries and create multiple winners among local governments, donors, the private sector, and local citizens. PPPs are particularly suited to infrastructure and vaccine development.

- Strengthen internationally active NGOs in Canada by encouraging consolidation and economies of scale and specialization in the sector.

- Transform CIDA (Canadian International Development Agency) by:

  - Requiring increased accountability to both the government and the Canadian public;
  - Improving efficiency;
  - Replacing a "made-in-Ottawa" approach to aid with an "on-the-ground" approach;
  - Adopting a "90-10" rule that directs 90% of development aid to low-income countries;
  - Buying-in research rather than duplicating existing expertise;
  - Creating a marketplace for aid projects; and
  - Demanding execution, leadership, and sound management at CIDA.

- Reform food aid by:
  - Completely untying food aid from any requirements that it be provided from Canadian sources;
  - Refocusing efforts on rural development; and
  - Supporting market-based approaches to managing environmental risks, such as drought insurance.

- Improve post-conflict aid by:
  - Recognizing the new paradigm of providing aid and peacekeeping simultaneously in conflict and post-conflict situations;
  - Increasing the amount of aid allocated to both conflict-prone nations and post-conflict situations;
  - Demanding accountability for post-conflict aid disbursements and giving the military responsibility for aid delivery if necessary;
  - Realigning Canada's aid and peacekeeping priorities to focus on Africa;
  - Using aid money and Canadian expertise to facilitate bottom-up institution building and governance initiatives in post-conflict nations; and
  - Improving the timing of post-conflict aid.

BENEFITS FOR CANADIANS

How will you and your family benefit as Canada takes a more vigorous leadership role on the international stage?

More and better jobs with higher incomes: Your prosperity and that of your children will be better secured, as Ottawa launches new trade initiatives, particularly with the United States, to deepen and expand the international markets on which an ever-increasing number of Canadian jobs rely.

Personal security: Your safety in a dangerous and unpredictable world will be increased, as Canada restores its national, continental, and international defence and peacemaking/peacekeeping capabilities.

Pride in your country: Your sense of pride in Canada as an international beacon of hope will be increased, as Canada assumes greater international responsibility for the defence of freedom and the eradication of suffering by building prosperity in poor nations. You will no longer be embarrassed by Canada's failure to match its rhetoric with action on the world stage.

Enriched individual prosperity, greater personal security, and a brighter sense of pride in your country are goals worth striving for. Together, we can achieve all of these with effective, focused, and appropriate public policies that empower private initiative at home and abroad. We conclude by renewing our invitation for you to join us in refining and promoting the actions that will demonstrate to the world *International Leadership by a Canada Strong and Free.*

1 INTRODUCTION

THE MANTLE OF LEADERSHIP

Volume 1 of this series, *A Canada Strong and Free*, advanced a fresh vision for Canada. It imagined a nation whose people enjoy the highest quality of life in the world, are sustained by the world's best-performing economy, and exercise freedoms guaranteed by the best-governed democratic federation on earth. Subsequent volumes proposed practical steps Canadians can take to achieve these goals.

Volume 2, C*aring for Canadians*, showed how we can dramatically improve Canadian education, child and health care, and social assistance services, by mandating those services to the level of government closest and most responsive to those being served.

Volume 3, *Rebalanced and Revitalized,* laid out a plan to make our democracy more effective and responsive, by making the best possible use of each of our three levels of government and engaging the creative genius of our citizens through special assemblies and direct referenda.

Volume 4, *Building Prosperity,* found the key to a wealthier nation in greater economic freedom, and identified how Canadians can enjoy more freedom and wealth through sensibly reduced taxes and business regulation, expanded trade within our own borders, and right-sized government.

In our original Volume we also proposed a fourth goal: to establish (some might say "re-establish") Canada as a model of international leadership.

Of course, achieving our goals for Canadians at home would go far toward achieving this additional objective, since any nation that demonstrates a superior quality of life, a more productive economy, and responsive democracy will naturally tend to inspire emulation—becoming an international leader by example.

But there is a good reason to examine this fourth goal as a distinct objective. Canada has lost ground as an international leader in the last decade as a result of ill-considered choices. Our foreign policy has failed to reflect the full range and depth of Canadian values and interests. Canada's military, once a source of justifiable national pride, was starved of funding, equipment, and personnel. Our contribution to international peacekeeping, let alone peacemaking, became more rhetorical than substantive. Gratuitous anti-Americanism on the part of some of our leaders eroded relations with our closest neighbour and largest trading partner.

In this fifth volume of the *Canada Strong and Free* series, we therefore call for Canada to reclaim its role in the international arena—for Canada to lead and inspire the world.

The world is wide of course, and Canada's role in it is multi-faceted. Nevertheless we believe that by concentrating on three priorities in foreign policy Canada can significantly advance its national interests and international influence. These key tasks must be: to champion and practise freer trade; to advance our relationship and deepen our influence with the United States; and to give effective help to people living in nations less fortunate than our own.

In dealing with the rest of the world, defence and security must always be central concerns. We are encouraged by the steps Canada's new government has taken to strengthen Canada's armed forces and pioneer a mixed approach to peacemaking and peacekeeping in Afghanistan. Here, therefore, we will confine our discussion to the critical issue of ensuring continental security and the important role of development assistance to areas in conflict.

Before we go into detail on these priorities, let us take a moment to explain how we have reached our conclusions and the foundations on which we believe Canadians must build if we are truly to lead and inspire on the international stage.

We began with a fundamental question: What should Canadian foreign policy in the 21st century seek to accomplish?

In 1995, the Chrétien administration answered that question by embracing what it termed "values projection." It argued that the primary goal of Canada's policy abroad should be to project Canadian *values* to the wider world. Others took—and take—a different view. Political scientist Denis Stairs, historian Jack Granatstein, and others, for example, have argued that basing foreign policy on values is misguided. Instead, they contend, Canada's foreign policy must promote Canadian *interests* (Stairs *et al.*, 2005).

Our view encompasses both these perspectives. We believe that the Government of Canada should pursue clearly identified *interests*; that these should reflect long-established Canadian *values*; and, further, that various dimensions of our foreign policy (for example, trade, defence, and aid) may be designed to advance different interests and values.

For example: we *value* increased economic prosperity for ourselves and for others. This value underlies our *interest* in trade liberalization and effective aid to those in need. We *value* security for Canadians and others around the world. That motivates our *interest* in keeping North America safe, and in both making and keeping the peace abroad.

Let us avoid any semantic confusion of these two concepts. Or worse yet, self-serving rhetoric about the "superiority" of Canadian values, unwarranted comparison of Canadian and American values, and vaporous "value talk." Canadians have been poorly enough served in the past by these substitutes for practical action that measurably advances their interests.

Whatever else Canada's foreign policy for the 21st century entails, it must *work*. If Canada is to lead and inspire in the world, it will only be because our actions accomplish something. Talk is not enough.

With that in mind, our proposals rest on four criteria. Canada's policies abroad must be *effective, focused, appropriate,* and *empowering.*

Effective in that above all Canada must achieve what it sets out to do. To be effective as a middle power Canada must *focus* its limited assets of wealth, force, and influence. We must employ strategies, tactics, targets, and agencies that are *appropriate* to our goals. Lastly, in keeping with our democratic values, our efforts must *empower* both Canadians and others to freely pursue their individual interests.

Above, we set out three priorities for Canada's actions on the world stage: freer global trade, better relations with our most important economic partner, and aiding the less fortunate. How can Canadians be confident that policy on each of these fronts will be *effective*?

We can start by aiming for results rather than proceeding out of ideology or in defence of political sacred cows. We know that the key to economic growth is increased trade; that the key to trade is competitiveness; that the key to competitiveness is higher productivity; and that the keys to productivity are innovation and adaptation. We know, therefore, where to begin if we wish to increase our wealth. We also know that Canada's power to influence international events is directly proportional to our capacity to influence the United States; to be effective in any other arena we must first be effective in Washington. Likewise, if we want our investment in foreign aid to be effective, it must be guided by outcomes rather than by arbitrary inputs such as giving away such and such a percentage of our GDP whether it accomplishes anything or not.

Canada's assets are limited. Where then should we *focus* those assets?

As a fundamental, every aspect of policy should promote the broad interests of our nation as a whole, rather than the narrow benefits of a privileged few. Again, we have much more to gain from expanding our trade with the United States than we do from elusive multilateral trade agreements or deals with minor partners. Similarly, we cannot help every victim of misfortune or lift the entire third world out of poverty; we should direct our help where it can make a real difference.

What instruments are most *appropriate* to accomplishing effective results in these focused areas?

Our prosperity relies overwhelmingly on trade; it is therefore appropriate that we aggressively pursue markets abroad and in return take steps to fully open our own market to global competition. Similarly, we know that access is crucial to influence, and influence the key to persuading American decision-makers to respond to our concerns; it is hardly appropriate to start by lecturing our neighbours on their supposed moral shortcomings. When we seek to help others develop their societies we should let whoever can best deliver aid do so, recognizing that non-governmental organizations (NGOs) may often be more appropriate for the job than government-to-government programs. We should also recognize that humanitarian assistance in the wake of disaster or conflict is a special case and may need to be handled differently from development aid.

Finally, how can we ensure that our foreign policy reflects the core democratic—and Canadian—value of *empowering* people to exercise economic and civil freedom?

The fact is that trade, like most economic transactions, is fundamentally a private activity. Governments serve best when they restrict their role to facilitating those transactions and fairly adjudicating whatever disputes arise; trade agreements deter governments from succumbing to the otherwise irresistible temptation to protect a few at the expense of the many. Deepening our relationship with the United States so that Canadians enjoy greater, more assured, seamless access to its giant market cannot fail to empower our citizens to take advantage of the opportunities that would create. At the same time, just as we pursue trade and economic freedom for ourselves as the most powerful engines of wealth-creation that the world has ever known, so we should feel compelled to place the same empowering tools in the hands of the world's poor. More broadly, as Nelson Mandela has noted: "In the interdependent world in which we now live, rich and poor, strong and weak, are bound by a common destiny which decrees that none shall enjoy lasting prosperity and stability unless others do too" (Mandela, 1998).

Canada will not claim its place on the world stage through might—military or economic. Nor should it.

We believe instead that Canada will lead and inspire the world in the 21st century by what it has to offer—illuminating the international scene as a champion of freedom, a practitioner of practical compassion and a model of that same peace, order, and good governance that we enjoy and value so highly at home.

2 THE SECRET OF OUR SUCCESS

INTERNATIONAL TRADE

AN AMAZING MACHINE

Imagine a spectacular invention: a machine that can convert corn into stereo equipment. When running at full capacity, this machine can turn fifty bushels of corn into a CD player. Or with one turn of the dial, it will convert fifteen hundred bushels of soybeans into a four-door sedan. But this machine is even more versatile than that; when properly programmed, it can turn Windows software into the finest French wines. Or a Boeing 747 into enough fresh fruit and vegetables to feed a city for months.

Indeed the most amazing thing about this invention is that it can be set up anywhere in the world and programmed to turn whatever is grown or produced there into things that are usually much harder to come by.

Remarkably, it works for poor countries too. Developing nations can put the things they manage to produce—commodities, cheap textiles, basic manufactured goods—into the machine and obtain goods that might otherwise be denied them: food, medicine, more advanced manufactured goods. Obviously poor countries that have access to this machine would grow faster than countries that did not. We would expect that making this machine accessible to poor countries would be part of our strategy for lifting billions of people around the globe out of dire poverty.

Amazingly, this machine already exists. It is called trade (from Wheelan, 2002, p. 187).

In the first Volume of this series, we envisioned “a Canada in which Canadians strive to achieve standards of living, economic performance, and democratic governance that are the highest in the world and enable Canada to be a model of international leadership and citizenship” (Harris and Manning, 2005, p. 17). But Canadians will realize little of this vision without the enabling engine of a thriving economy. Put simply, the greater the prosperity Canadians enjoy, the greater our opportunity to do more for ourselves and for the world. And nothing breeds prosperity more efficiently than trade and free market economies.

It has long been a truism that Canada is a trading nation. From our earliest days, Canadians relied on exports to bigger, wealthier markets for our livelihood. In exchange we have benefited from a rich choice of imported goods, services, capital, and technologies. However, these benefits have masked an unhappy and less well-appreciated fact: the extent to which Canadians have fallen short of the rewards we might have enjoyed. Too easily satisfied with the bronze medal, we have been unprepared to do what it takes to earn the gold. And the loss has been ours.

We think Canada can do better. We think Canadians are ready to take the steps necessary to make ours a gold-medal economy and Canada into the best place in the world from which to pursue global opportunity. We believe Canadians possess the confidence to strike down the obsolete policies and practices that hinder our productive resources — capital and labour—and that keep us from finding their most beneficial uses.

Effective strategies and appropriate tactics are available. It is time to focus on the task.

POLICY EVOLUTION FROM "NATIONAL" TO "GLOBAL"

To begin, a little history may be in order. The North American colonies that ultimately joined together to become the Dominion of Canada in 1867 existed on the periphery of empire. For most colonists Britain, the "old country," was important as both a market and a source of manufactured goods. It remained so for many years. But Canadians were by no means averse to taking advantage of their proximity to the United States as well, either as a source of goods unavailable from local suppliers or as an outlet for some of their own exports. The new Dominion's very first government recognized this reality and tried to forge a trade relationship with our southern neighbours to further develop this two-way trade.

Events, however, conspired against these early Canadians. With few exceptions, US lawmakers did not find freer trade with Canada attractive on any terms other than annexation. Canadians found this far too steep a price. As an alternative, Sir John A. Macdonald's second government adopted its National Policy in 1879—a decidedly second-best option.

Later historians emphasized the National Policy's virtues in building a Canadian nation. Perhaps, but for the first quarter-century following the adoption of the National Policy the effort to strengthen Canada's economy on east-west lines brought meagre results. The opening of the Prairies to dry-land wheat farming early in the 20th century made the National Policy seem more successful. High tariffs and other protectionist devices did stimulate development of a thriving but high-cost manufacturing sector in Central Canada. But Canadians continued to pay a heavy price. Exporters of Canadian resource products to world markets found that the high cost of machinery and other inputs protected by the National Policy frequently undercut their ability to compete. Working Canadians paid the price in lower wages, higher prices, and less choice. The economy the National Policy fostered was larger than it was before, but still less prosperous than it might have been (Dales, 1966a; 1966b).

Forging an east-west economy also created tensions. Ontario and Quebec acquired most of the expensively protected manufacturing, and thus became the National Policy's principal proponents. (Later on, even some agriculture in the two provinces came to depend on the peculiar Canadian institution of supply management, itself dependent on tight border restrictions.) Atlantic and western provinces, on the other hand, came to rely largely on the export of resources—farm, fish, and forest products, metals and minerals. Western grain and cattle producers learned to live with the vagaries of international prices and competition. Even when US demand for Canadian raw materials soared in the middle decades of the 20th century, the federal government resisted easing protection for Central Canada's manufacturers. Thus two sets of tensions developed: between export-oriented resource producers and import-competing manufacturers, and between the resource-rich periphery and the people-rich centre.

The structures created by these tensions proved difficult to alter. For much of the last century, Canadians clung to the illusion that a resource-based economy without secure markets for its products, yoked to inefficient manufacturers organized around import-substitution, could nonetheless sustain growth and prosperity. Facing stubborn barriers to their exports in the United States and Europe, moreover, Canadians found it hard to resist their own manufacturers' calls for protection. Those manufacturers in turn became deeply attached to protection and even succeeded in convincing their fellow Canadians that higher prices and meagre choice were somehow important contributors to national identity (a view still held in some protected sectors).

But change did come. Bilateral agreements responding to the disaster of the Great Depression of the 1930s, and then multiparty negotiations after the even larger crisis of the Second World War, gradually chipped away at the familiar walls erected by the National Policy. Even so it took several generations before those walls were sufficiently low, and opportunities elsewhere sufficiently enticing, to convince cautious Canadian manufacturers to embrace a more open economy.

Starting in the mid-1980s and with growing confidence in the 1990s, Canadians accepted that our prosperity depends on looking outward. The Canada-United States Free Trade Agreement, later extended to Mexico, and then the conversion of the post-war General Agreement on Tariffs and Trade (GATT) into the World Trade Organization (WTO) near the end of the century, dispelled much of the lingering legacy of the National Policy. They ushered in new policies geared to reap the full benefit of Canada's comparative advantages.

While Canada's east-west trade has barely changed in a generation, our north-south trade has doubled. As a result Canada is a more prosperous country. Consumers have more choices and pay less for them. Firms have more opportunities and service them more easily. Canadians have better paying jobs and find them more satisfying. As John Tumlir, chief economist at the GATT, has observed: "It is depressing to think of all the effort wasted over generations, and the income foregone, because of the belief that an economy gains by protecting its industries"(Tumlir, 1985).

The 1990s thus witnessed a revolutionary change. Free trade became the default position; protection, the minority view. The transition however remains incomplete. Vestiges of the past remain, dragging down Canada's economic performance and the prosperity of individual Canadians.

THE EFFECTIVE BENEFITS OF TRADE AGREEMENTS

Canada now has one of the most open economies in the world, next door to the world's largest and most dynamic market. Just as the failure to secure open trade with the United States in the 19th century invited the National Policy, so successful agreements on freer trade in the late 20th century have removed its rationale. Open trade has increasingly allowed Canadians to make the most of their comparative advantages, providing prosperity, jobs, and a choice of the best products in the global marketplace. Yet some Canadians continue to question whether freer trade is the most appropriate economic strategy for Canada.

There are Canadians who worry that trade agreements undermine our ability to pursue independent policy goals. It is true, of course, that all international compacts, whether their aims are economic, environmental, military, or civil, seek to curb national decision-making to a degree. States (and their citizens) make the reasonable calculation that their interests are better served if other states behave in a predictable and stable manner, subject to common rules, even at the cost of a measure of their own freedom of action. In this respect, trade agreements are no exception, nor very different from many other treaties, conventions, and declarations to which Canada is a party. As economist Ed Safarian notes, "enforceable rules on the way in which both governments and firms compete and how they collaborate... provide the best guarantee that such competition and collaboration ultimately serve more than a parochial interest" (quoted in Hart, 1998, pg. 5).

As citizens of a relatively small economy trading with larger, more powerful partners, Canadians have relied increasingly on the security of trade agreements in opening their market to international competition. Far from promoting unfettered market forces, these agreements have allowed trade and investment to grow on a sustainable basis according to clear rules.

Like most economic transactions, trade is fundamentally a private activity. Governments provide laws and institutions that facilitate these transactions, but individuals determine the extent to which and with whom they trade. Increasingly, Canadian producers respond to the appetites of foreign, particularly American, customers while Canadian consumers choose foreign goods and services. As a result, Canadian exports of goods and services have expanded steadily over the past two decades to $520 billion in 2005, representing 37.9 percent of Canada's GDP. Imports were similarly robust, reaching $468 billion in 2005, or 34.1 percent of GDP. Our two-way trade is approaching the trillion-dollar mark (nominal terms).

A more complete picture emerges when we add the flow of capital to the exchange of goods and services. Foreign firms have a $415.6 billion stake in Canada. Canadians control assets abroad worth $465.1 billion. Canadian subsidiaries in the United States alone rang up $234 billion in sales in 2005, while US affiliates in Canada reported sales of $577 billion. "It is becoming increasingly meaningless, if not outright impossible," Howard Lewis and David Richardson point out, "to think of trade as something separate from cross-border investment, or of exporting as something separate from importing products and innovative ideas. All are tied together in the extended family of global commitment" (Lewis and Richardson, 2001, p. 11).

In this picture of Canada's trade however, one partner eclipses all others. Trade with the United States amounts to an astounding $1.75 billion each and every day; service transactions add another quarter-billion dollars a day. To carry the trade more than 36,000 trucks cross the border every day, complementing the freight trains, ships, planes, buses, pipelines, and transmission lines that connect the two economies. Much of this is what economists call "integrative" trade; that is, exchanges among related parties or firms. Statistics Canada reports that about a third of what Canadian firms export was first imported. In the automotive sector, previously imported parts represented more than half the value of exports. Even food, agriculture, and forestry exports contained at least 10 percent imported content.

The prosperity such trans-border trade generates benefits every region of Canada. Thousands of firms and their workers in every part of the country reach out to foreign markets either directly or as suppliers to other internationally competitive enterprises. Basic resources—grains, fish, forestry, metals, minerals, and energy—now account for less than a third of Canada's total exports. Fabricated resource products, machinery and equipment, automotive products, services, and consumer products make up more than two-thirds. Canadians are no longer just "hewers of wood and drawers of water." While basic resources continue to be important to our prosperity, Canada has become a knowledge-based industrial and service economy.

As well as we have done, we can do better. To put it bluntly, the policies of the last two decades have put Canadians in the race, but they have not prepared us to win the gold medal. Others worked harder, have more advantages, are better prepared, or have otherwise placed themselves ahead of us.

If Canadians want to do better, we must also do more. To that end, we must ask ourselves some basic questions. Are we ready to assign the last vestiges of the National Policy to the dustbin of history? Are we prepared to create a truly level playing field in Canada? Are we willing to pursue markets wherever they can be found?

We think our fellow Canadian citizens are ready to answer "yes" to all of these questions. And in the pages that follow we outline what it will take to put that willingness into action.

DOING BETTER ABROAD BY DOING BETTER AT HOME

The key to economic growth is greater productivity, and the keys to productivity are innovation and adaptation. Robust trade is evidence of an economy that is innovating and adapting. Firms that trade internationally are more productive, pay higher wages, and earn greater profits (Lewis and Richardson, 2001, p. 11). But the reverse is also true. Whatever hinders innovation or slows down adaptation also robs Canadians of growth. The result is a weaker economy and less robust trade. A first task, therefore, is to identify what is *in*appropriate in our existing portfolio of policies and remove it.

In an earlier volume in this series (Harris and Manning, 2006), we showed how to identify what is *in*appropriate in our existing portfolio of policies and correct it by reducing the size of government, reforming the tax regime, and eliminating unnecessary regulations. What these reforms have in common is that they involve governments doing less, rather than more.

THE PRODUCTIVITY CHALLENGE

"Productivity" is the way economists measure how well a society is using its resources: its people, capital, and technology. Growth in productivity is important for two reasons: it increases our ability to compete in global markets and our ability to afford the quality of life we desire, from health care and early retirement, to clean air and good education. The more productive a society, the more it can underwrite a high standard of living for its citizens.

For most Canadians, media reports about Canada's productivity are a puzzle. They wonder whether they should worry or celebrate. The good news is that the Canadian economy is one of the most productive in the world; the bad news is that improvements in productivity have not kept pace with some of our global competitors.

The indicator most often cited is that the gap between Canadian and US productivity is widening. Productivity in both countries is improving, but more quickly in the United States. The average American today produces roughly $9,000 more in value than the average Canadian. There are various reasons why this is so, including the fact that Americans take fewer holidays than Canadians and make better use of technology and capital.

Canadians may choose to work less than Americans and accept the difference in living standards. The concern, however, is that government policies may be a bigger factor than personal choice. If rules and regulations are a drag on the economy, it makes sense for citizens to review them and decide whether the benefits justify the economic cost.

This reflects the consensus of the past twenty years that governments do more for an economy when they forego efforts to shape its structure, and focus on creating a fiscal, monetary, and regulatory environment that sets producers and consumers free to pursue the transactions they believe to be in their own best interests. As the OECD notes, "the efficiency benefits of an open trade and investment regime contribute to economic growth and hence rising incomes. By contrast, restrictions on trade and investment, in common with other economic distortions, shift an economy to a less efficient and sustainable mix of investment, production and consumption patterns, thus depressing *economic* growth prospects and reducing attendant benefits such as job creation and innovation" (OECD, 1998, p. 29).

As counter-intuitive as it may seem to some, reducing business subsidies, allowing weak firms to fail, eliminating remaining tariffs, and other "tough-love" measures will do more for the efficiency, productivity, and vigour (to say nothing of trade performance) of Canadian firms than virtually any other policy or program.

It is not that government has *no* appropriate role. Government activities from competition law to consumer protection enhance economic efficiency and contribute to prosperity. Governments also pursue valid non-economic objectives: policies that distort the market or affect trade may serve other important goals, from national security to distributive justice. The challenge is to address society's most pressing priorities in balance with competing claims. Sound policies promote broad, national interests over narrow, special interests; they gain benefits for the many rather than the few. Proper instruments limit undesirable distortions.

Governments respond to squeaky wheels. This fact of political life is unlikely to change and, of course, the squeaky wheels of the past will not go quietly. As one US pundit put it: "The task of weaning various people and groups from the national nipple will not be easy. The sound of whines, bawls, screams and invective will fill the air as the agony of withdrawal pangs finds voice" (Bowles, 1994, p. A6). But weaned these special interests must be, if our productivity and standard of living are to improve. And Canadians need not believe that every squeaky wheel represents a fibre of the national identity. The Wheat Board, agricultural supply management, ownership restrictions in financial services, transportation, energy, telecommunications, business subsidies, and tariffs, all may once have responded to perceptions of compelling public purpose. Today, they serve as little more than a drain on Canada's economic wealth.

A HARVEST OF INEFFICIENCY FROM SUPPLY MANAGEMENT

Supply management in grain, dairy, and poultry farming offers a good example. Marketing boards were originally introduced in the 1920s and 1930s as voluntary organizations to strengthen the hand of farmers in dealing with customers. They proved useful. But then governments made them compulsory. Committees and bureaucrats pushed farmers and their customers aside and took control of the supply of everything from wheat and barley to milk and eggs. Political considerations, not market forces, determined prices. The result was inevitable distortion. And when governments restricted imports of competing farm products to protect these schemes, the distortions multiplied.

As a result, today, almost every Canadian is worse off, while a very few continue to benefit. Consumers pay more than they should for milk,

THE HIGH PRICE OF CHEESE

For Canada's 17,500 dairy farmers, the high tariff on imported cheese —245.5 percent—seems a small price to pay to ensure a fair return on their labour and investment. Their perspective is not hard to appreciate. Most of us might agree that raising the price of whatever we produce in order to improve our standard of living is a reasonable trade-off. But as a matter of fact, most of us would be wrong.

Protecting particular jobs really means destroying other jobs and reducing the standard of living of all Canadians. By maintaining a high tariff on cheese and other dairy products, we frustrate the ability of the market to signal those activities for which Canadians have a "comparative advantage" and in which we should specialize—as well as those for which others are comparatively better suited.

Canadian cheddar cheese is reputed to be the best in the world. Knowledgeable consumers everywhere might pay a premium for it. We will not find out, however, so long as its price is determined by the high level of protection our cheese makers now enjoy at home.

eggs, bread, and other products, leaving less to spend on other things. Efficient farmers earn less than they could in a free market. *In*efficient farmers stay in business, even when the market would tell them they could earn a better living in another line of work. The value of production quotas inflates the price of farms, and deters owners from switching to products they might produce more efficiently. Farmers in other countries, including poor nations, lose the chance to serve Canadian customers and earn the income that would allow them to buy products from efficient Canadian exporters (Hart, 2005).

Canada was not alone in attempting to stabilize farm incomes with measures that created as many problems as they solved. Many other countries did the same. The WTO Agriculture Agreement and the Canada-United States FTA eliminated some of the worst of these trade barriers. Many Canadian farmers and food producers responded well. They became more competitive and better integrated into world, and particularly North American, markets. Still, farm subsidies remain a major global problem.

Canada pays less than it once did in the way of direct cash subsidies to farmers. Instead, our supply management system and high tariffs constitute indirect subsidies. The need to defend farm subsidies severely compromises the ability of Canadian negotiators to challenge egregious

That protection also prevents Canadians from choosing freely among hundreds of speciality cheeses produced around the world. The 20,411,866 kilograms of cheese allowed into the country each year tariff-free amounts to 600 grams per Canadian—enough for most of us to try just two or three examples. In fact the real amount is less than that, since imports of low-cost pizza and other industrial cheeses take up most of the quota. Importers of specialty cheese pay the astronomical tariff on any product purchased over the quota and pass this cost of doing business on to consumers able to afford the luxury of imported cheese.

Economists like to point out that there is no such thing as a free lunch, particularly a lunch involving cheese. By paying more for their cheese, Canadians have less money left to pay for cars, movies, sweaters, health care, and other purchases. Raising incomes for dairy farmers thus ends up destroying jobs for other Canadians and a slice of French blue cheese is a luxury few can afford.

EU and US farm subsidies which are at roughly Canada's level. Phasing them out, while mitigating the cost of adjustment for individual farmers, would have a dual benefit: clearing away a major inefficiency in our own economy and strengthening efforts to tackle subsidies elsewhere.

THE TRUE COST OF A "FREE" LUNCH

Agriculture is not the only sector that benefits from the largesse of government. The power of the state to coerce taxes from citizens is always prone to capture by groups who would like to benefit from this revenue. Much of what Canadians pay in tax goes to important public functions such as defence, diplomacy, infrastructure, and justice. Tax revenue is also used to compensate for market inefficiencies and to redistribute income. Some also goes to prop up uncompetitive businesses.

Stalwart defenders of industrial policies and investment incentives, otherwise known as subsidies, insist that they either save or create jobs, or allow Canada to participate in industries that would otherwise be established elsewhere. There is no credible basis for such claims. It is hard to imagine circumstances in which politicians and bureaucrats are better placed to assess the viability of a particular activity than investors and entrepreneurs whose judgments are subject to market discipline. "Industrial policies" are no more than politicized redistribution schemes that penalize successful firms and reward laggards. For every job a subsidy "creates" or "saves," others are destroyed by the extra taxes needed to pay for the subsidy.

Canadian business leaders, arguing for lower taxes, frequently chastise government for providing subsidies to favoured sectors. Governments should take them at their word, ignore special pleading, and phase out all remaining business subsidies whether to aerospace, textiles and clothing, agriculture, or some other sector.

COVERT PROTECTIONISM

Restricting the foreign ownership of certain kinds of businesses is another form of protectionism which may not be obvious, but carries a price for Canadians. Limiting foreign participation in a sector devalues the capital invested there and reduces the incentive for firms to innovate and create new value. This type of "protection" in fact handicaps financial services, transportation, telecommunications, energy, and other sectors of the Canadian economy.

Defenders of the policy typically argue that governments can better enforce regulatory and other rules on Canadian than on foreign owners. Experience denies this. Numerous foreign-owned automotive and other firms operate in Canada in full compliance with our laws and regulations. There is no reason to think the same would not hold true in banking, air transport, communications, or energy. If the issue is enforcement of Canadian laws, restricting the ownership of firms operating in Canada is simply not the appropriate way to accomplish this objective.

COSTLY HOLDOVERS FROM THE PAST

The Customs Tariff is a policy that continues to steal from Canadians on a daily basis. Most Canadians have long forgotten (if they ever knew) that the original purpose of the Tariff was to raise money for the colonial, and later, the federal government. In the 19th and early 20th centuries the Tariff often provided two-thirds of federal revenue. That has not been true for at least six decades yet the Tariff lingers to protect a handful of manufacturers.

As a result of repeated rounds of negotiation over the years, tariff protection has been reduced until it represents less than one percent of government revenue and, spread across all imports, adds less than two percent to their cost. More than 80 percent of products now enter Canada free of duty as a result of the Canada-United States Free Trade Agreement (CUFTA), other tariff preferences, and concessions to developing countries. Indeed, the cost of collecting the tariff and maintaining related programs (such as rules of origin) are out of all proportion to the revenue it now raises.

Nevertheless, tariffs that remain do substantial damage. As Table 2.1 illustrates, tariffs of more than 200 percent effectively triple the price of dairy and poultry imports; imported textiles, clothing, and footwear are taxed at rates of up to 20 percent. Significant as such penalties are to Canadians who might use these products, they understate the full impact on the economy. They fail to capture the cost of a delayed movement of capital and labour from less productive activity into more productive endeavours.

Governments have simplified the Customs Tariff over the years, and organized it around an internationally agreed schedule of products. But they have shied away from the simplest reform of all: eliminating the Tariff altogether. At one stroke, that would reduce 1,796 pages of customs law to a single sentence applying a statutory rate of "free" to every one of the more than 5,000 product lines now enumerated. The same stroke would eliminate hundreds of pages of regulations and administrative notices. It would achieve both freer trade and deregulation in one step.

As attractive as this looks, as long as the United States maintains its own Tariff it would complicate achievement of an even more important Canadian objective: a seamless North American market. A more practical goal is a Common External Tariff (CET) that would see the United States and Canada apply identical rates on the same product. In addition to lowering the tariff in both countries, a CET would eliminate the ruinous effect of rules-of-origin and sharply reduce the cost of cross-border trade. We will return to this issue later in our discussion of Canada-US relations.

Canadians claim to be generous and, in fact, have demonstrated a desire to help the world's least fortunate. But we could be much more helpful than we are. As long as we shelter industries such as textiles, clothing, and footwear behind high tariff walls and aggressive antidumping investigations, we hurt rather than help those foreigners who produce these products, most of whom live in countries much poorer than ours.

Such protection is also unfair to ourselves. It forces us to pay more for shoes, shirts, underwear, and other products than we would pay in a free global market. It is even unfair to the Canadians working in the protected industries, trapping them in low-wage jobs. In an economy that has added an average of more than 250,000 new jobs each year for the past four years, there is no justification for protecting the low pay and high prices that characterize such import-competing sectors.

Does this mean that Canada should close down its footwear and clothing factories? Not necessarily. Competitive Canadian firms exist in these industries. They would do well in a more open domestic market and could do even better if Canada's actions in retiring its tariffs persuaded other countries to drop their own barriers.

TABLE 2.1: SOME TYPICAL CANADIAN TARIFF LEVELS IN 2006

PRODUCT	RATE (%)	PRODUCT	RATE (%)
Wheat, durum	49.0 %	Wheat, other	76.5%
Wheat, gluten	$397.30 per tonne, plus 14.5 %	Barley	94.5%
		Ships	25.0%
Chicken	238.0 %	Turkey	154.5%
Eggs	163.5%	Butter	298.5%
Milk	241.0%	Cream	292.5%
Cheese	245.5%	Yogurt	237.5%
Rivets	6.5%	Cotter pins	6.5%
Leaf springs	8.0%	Spices	3.0%
Cloth	14.0%	Yarns	8.0%
Carpets	12.5%	Footwear	20.0%
Knits	14.0%	Clothing	18.0%

Source: Canadian Border Services Agency, Customs Tariff, Department Consolidation 2006. Accessed at: http://cbsa-asfc.gc.ca/general/publications/customs_tariff-e.html

Governments do not pick winners well. Markets do a much better job. To allow the market to do its job, governments should stop protecting the losers. If business subsidies, ownership restrictions, supply management, and other legacies of National Policy thinking were eliminated, Canadians would liberate economic resources to migrate from areas of low return to areas of greater promise. The result would be a stronger, more productive, and wealthier Canada.

US economist Douglas Irwin has made an exhaustive study of all the arguments used to justify protection, demonstrating in each case the weak intellectual foundations upon which they all rest. He concludes: "About two hundred years ago, largely as a result of Adam Smith's *Wealth of Nations,* free trade achieved an intellectual status unrivalled by any other doctrine in the field of economics. Despite being subjected to intense scrutiny over the two centuries since that time, free trade has, by and large, succeeded in maintaining this special position" (Irwin, 1996, p. 217).

Protection is a matter of politics, not economics. To an economist, the impact of protection is clear: it provides the illusion of benefit for a few but penalizes everyone else, often long after the original, short-term benefit has dissipated. As Adam Smith put it, "mercy to the guilty is cruelty to the innocent" (Smith, 1759).

Canadians can achieve many of the benefits of a more open economy on our own, without waiting for any other country to act with us. It is true that more might be achieved by acting together with other nations but here the perfect should not be made the enemy of the good.

Removing trade barriers for the broad good of the nation will present a painful adjustment to those who have become dependent upon them. For example, the value of a dairy farmer's supply-managed milk quota may exceed the value of the cows and for many, the quota system has become a retirement nest egg. To lose it or have its value diminished by freer trade in dairy products would be a devastating loss. Indeed, the difficulty of devising policies to ease such a transition is the main reason why trade agreements in Europe and North America have largely excluded agriculture. It is also why no Canadian government, regardless of its parliamentary majority, has been willing to tackle the high cost to our domestic economy of agricultural subsidies.

So, what to do? While drafting a detailed adjustment plan is beyond the scope of this study, we do propose three principles upon which such a policy should be based:

1. *Consultation*. Adjustment strategies, policies, and mechanisms must flow from full consultation with affected groups and individuals—both those who would suffer from eliminating protectionist measures and those who suffer from their continuation.

2. *Compensation*. Governments that created financial entitlements must accept the principle that those who will lose them are entitled to compensation.

3. *Limitation*. Neither consultation nor compensation can go on forever. The purpose of adjustment is to ease adaptation to a new economic environment, not to perpetuate a new form of dependence.

A SHRINKING RETURN FROM TRADE PROMOTION

Government has no place in the decision-making of Canadian consumers, importers, or exporters. For more than a century, Canadian officials have fanned out across the globe to promote our products. Today, Canadian trade commissioners can be found in over 150 cities around the world, backed up by several hundred officials in the federal departments of Foreign Affairs, Trade, Industry, Agriculture, and Natural Resources. Provincial ministries operate their own parallel programs. All of these efforts assume that Canadian businesses depend on governments to find markets, promote exports, and unearth investment opportunities. But is this true? And is the benefit worth the significant effort expended?

At one time, distances seemed greater, foreign markets more remote, and the mix of Canadian exports more concentrated. In the early years of the last century, for example, when half of Canada's exports were grain products, government-to-government dealings were indeed critical to export success. But those days are long gone. Little of Canada's trade today takes place between unrelated firms operating in separate national markets. Most involves transactions within multinational firms or among firms closely allied in sophisticated production networks. A growing share is made up of parts for complex finished products. Many global firms would be hard-pressed even to identify which of their products are "Canadian." Bombardier's regional jets, for example, have more foreign content than Canadian. In these circumstances, the role of trade commissioners in promoting "Canadian" exports is marginal at best.

Foreign intelligence and international commercial and governmental contacts still serve a limited purpose. For example, officials should certainly be ready to help individuals and firms overcome specific problems encountered in entering new markets. They should seize every opportunity to negotiate better rules and terms of access. They should insist that other governments live up to their agreements and be equally prepared to ensure that Canadians do the same. They should use the dispute-settlement provisions in trade agreements to defend the rights of Canadians. They should build relations with emerging trade and investment partners.

Much of this, however, will have only a marginal impact on Canadian prosperity as a whole. Thanks to the sophisticated and mature global trade regime that already exists, billions of dollars in international transactions now occur daily without the slightest government involvement. Weaning Canadian business off the government nipple, therefore, should extend to the trade and investment community.

Like other business subsidies, government trade promotion has vocal champions but, curiously, few opponents. The best way to determine whether a need exists is to put it on a user-pay business—as Australia has done. Private-sector market-intelligence and logistic services already compete in this area. Charging a fee for the services governments supply will soon determine how far Canadian firms value them—and at what price.

THE EXPORT DEVELOPMENT CORPORATION AND THE BANKS

Among the most important export promotion programs the federal government offers are those of the Export Development Corporation (EDC). Its host of services include assessments of foreign markets and investment guarantees. Its most important program, however, is to extend credit to foreign purchasers of Canadian goods and services. Sometimes credit is offered on a commercial basis, while more often credit is in the form of concessions; in effect, credit subsidies. Some sectors of the economy have become heavily reliant on this service.

Ostensibly, the EDC is a response to market failure: the inability or unwillingness of commercial banks to offer export credits, investment guarantees, and similar products at attractive rates. Perhaps, but there is also the suspicion that commercial banks find it hard to compete with a subsidized government "service."

The quickest way to determine whether there is indeed a commercial need for government-supplied export credits and guarantees is for the EDC to charge clients the full cost of these services. Under these circumstances commercial banks might well find it attractive to compete, and offer a broader range of products for their commercial customers, including export financing and investment guarantees.

As with other business subsidies, the EDC has strong support from its constituency. That support would be more acceptable if the EDC services were not subsidized by the rest of us.

THE DIMINISHING ROLE OF "BIG TABLE" TRADE TALKS

Choosing what to negotiate and with whom is the essence of trade diplomacy. Unfortunately, over the past dozen or so years Canadians have been reluctant to finish what they started in the 1990s. The result has been a string of low-risk, low-gain negotiations. As Bill Dymond and Michael Hart point out: "The unpleasant reality is that the Harper government inherited a Canadian trade policy that is effectively bankrupt: there is no economic or commercial market in Canada for multilateral and regional trade agreements, and no political market for addressing pressing matters in the relationship with the United States." Clearly, the moment is ripe for new thinking about where Canadian trade policy can be effective and what its appropriate goals might be (Hart and Dymond, 2006).

The WTO's Doha Development Round of trade negotiations offers a prime example. The round was suspended in July 2006 after participating governments agreed that none of the proposals then in play could bridge their differences. Only significant changes in view on the part of all the major players would justify re-starting talks. To date the table is empty and the prognosis pessimistic.

In all of this, Canada played only a small role. Determined to protect a dwindling number of chicken and dairy farmers, our trade diplomats had little to contribute to the discussion. It was not always thus. In the not-too-distant past Canada, with the United States, EU, and Japan, was a player, a member of the "Quad" that ran the World Trade Organization. Today India, Brazil, and Australia have displaced Canada at the centre of discussions.

It is tempting to blame this state of affairs entirely on the government's implacable defence of supply management in the barns of the nation. It is certainly bizarre that Canada, a major net exporter of farm products, remains rooted in the protectionist camp on this account. But that is not the only, or even the primary, reason for Canada's tepid engage-

THE WTO AND DEVELOPING COUNTRIES

The Doha Round was advertised as an opportunity for developing countries to get more out of the multilateral regime that governs global trade. The sad fact is that they did everything they possibly could to frustrate that objective.

The media like to blame the large industrial economies, including Canada, the United States and the EU, for the Round's collapse. And it is true that the major economies might have done more to eliminate remaining subsidies and tariffs, particularly on agriculture and standard technology products. But the greatest resistance to wider participation by the poor in world trade has come from the governments of developing countries themselves.

Studies by the World Bank, OECD, and others document how corrupt bureaucrats and venal politicians in most developing countries continue to maintain statist, protected economies that rob their citizens of choice, efficiency, and opportunity. As economist Gary Hufbauer sarcastically points out, "everyone 'knows' that trade ministers representing poor countries can't be asked to dismantle their barriers because ... well, because they like to use muddled infant-industry arguments to confer favours on well-connected constituents" (Hufbauer, 2005). In justification, emissaries from these countries cite the retrogressive doctrine of "special and differential treatment," or "S&D."

S&D asserts that only developed countries fully benefit from the international exchange of goods, services, capital, and technology. Proponents of the doctrine argue that since countries in the early stages of ment in the Doha Round. Put simply: Canada had little to gain or lose and no compelling stake in play. The truth is that Canada's most vital economic interests are now inextricably bound up with the United States; they can no longer be addressed multilaterally in the WTO.

The marginal importance to Canada of the Doha Round should not be confused with the WTO's continuing importance to us. Both the institution and the rules it administers continue to operate to Canada's advantage. The WTO is Canada's principal trade agreement with most of the world and provides a critical underpinning to the North American Free Trade Agreement (NAFTA).

What has failed is not the WTO, but only the consensus on expanding its purview. Governments have not rejected the need for global trade rules, for a global trade institution, or for transparent procedures to resolve disputes. What they cannot agree on are the parameters for

development are unable to take full advantage of the opportunities trade creates, they should be allowed to shelter their economies, at least initially, from the full application of liberalization rules.

But the premise is false and the doctrine's consequences are perverse. S&D denies citizens of developing countries two of the most important benefits of the trade regime: support for domestic economic policy reform, and improved access to export markets achieved through negotiation and underwritten by transparent rules and procedures. Countries benefit from these whether they are in the early or advanced stages of economic development, high- or low-income. Indeed, it can be argued that because developed countries already enjoy high per-capita incomes, the relative benefits from domestic reform and liberal economic policies are probably greater for individuals in lower income, less developed countries.

The doctrine is, furthermore, mercantilist in that it focuses on exports rather than imports. Every economist since Adam Smith has pointed out that the benefits of international trade come from imports, that is from access to the best the world has to offer at the lowest prices. Exports are needed to pay for imports, but they serve a utilitarian rather than an enriching purpose.

The quickest and most effective way to alleviate poverty in the third world would be for regimes there to introduce two mutually reinforcing policies that have proven their power everywhere: open government and open economies. An important by-product would be a fresh start to multilateral trade negotiations with the prospect of making a real contribution.

extending and strengthening those rules—and they are unlikely to do so any time soon.

This is no calamity for Canada. For this country, as for the United States and most of the rest of the industrialized world, the lion's share of what was desirable to accomplish in the multilateral arena has been achieved already. What remains unresolved is the more intractable residue of seventy years of negotiations. At the same time, established trading nations have resisted the efforts of emerging economies to recast the agenda in favour of development at the risk of diminishing the effectiveness of the current rules. There is potential benefit to expanding the global regime to include developing countries—including an expansion of trade in farm products. But for developed economies these advantages are small, and outweighed by perceptions of the political pain that would flow from lowering the last of the protectionist walls. In any event, Canada has little leverage to alter either the dynamics or the direction of the conversation.

MULTILATERALISM VERSUS BILATERALISM: A FALSE CHOICE

Many Canadians may recoil from our dismissal of multilateral trade negotiations. They will see it as repudiating Canada's history. Even the first Director General of the WTO, Renato Ruggiero, observed that "Canadians have multilateralism in their DNA" (Ruggiero, 1996). True enough, but from the outset multilateralism was a choice, not a vocation, a means rather than an end.

The choice was pragmatic. Multilateralism offered Canadians sustainable benefits. But what is the purpose of the game? Governments enter into trade agreements to resolve conflicts and improve circumstances that they cannot resolve or improve on their own. Accomplishing this with as many partners at one time as possible is obviously desirable. When players in the multilateral game become hostage to the agenda of the most recalcitrant players, the desirability wanes. Canadians should always be ready to pursue our interests on a multilateral basis, but we should never allow the ideology of multilateralism to stand in the way of our interests.

The lack of recent success in multilateral negotiations is in stark contrast to breakthroughs in regional and bilateral accords. Governments, particularly in developing countries, have been as eager to commit to liberalization under such narrower terms as they have been reluctant to conclude big-table accords. Canada has not been immune from this development.

And, as it happens, Canada's most promising trade opportunities lie in exactly such bilateral discussions—with our closest neighbour, most strategic partner, and largest market, the United States. We return to this obvious focus for effective trade diplomacy below.

THE FALSE ALLURE OF TRADE "DIVERSITY"

The manifestly apparent fact that the United States represents by far the most fertile field for Canadian business development meets a startling amount of resistance. Both inside and outside of government, policy entrepreneurs, vote-seeking politicians, academics, and activists are vocally committed to the idea that Canada needs to "diversify" its trade. They are confused.

It is not Canada but *Canadians*, as corporations and as individuals, who determine the pattern of trade and investment. Canada, the country, does not trade, despite frequent rhetorical assertions to the contrary. Trade flows from billions of discrete and seemingly unrelated daily choices by individuals about what to eat, wear, drive, read, and purchase. Markets and suppliers in the United States are now the overwhelming preference of Canadian firms and individuals, just as Canadian markets and suppliers have become more important in the United States. The pace of this growing economic interdependence accelerated perceptibly in the 1980s, to the benefit of both countries, and it has increased almost on a daily basis ever since. Calls to diversify Canada's trade relations fly in the face of this reality.

Ever since Prime Minister Trudeau pursued his failed "third option" in the 1970s, a small minority of Canadians have continued to worry about the "threat" of becoming integrated into the North American economy.

The calamity they imagine looming over our southern border has, however, stubbornly declined to appear. As we noted earlier, the goods and services Canadians trade, mainly with the United States, are already highly diversified—and they are becoming more so. The range of products and suppliers vying for consumers' attention has increased dramatically over the past few decades, while Canadian producers now serve millions of customers. Most of these happen to be in North America because that is where the most profitable opportunities are to be found.

Are there profitable opportunities beyond North America that Canadian firms would prefer to service but cannot because of trade barriers? The evidence is not there. As a result of nearly seven decades of trade negotiations, the markets of the industrialized countries are, on the whole, open. The barriers that remain are of two types: those protecting the most sensitive—read politically potent—sectors, and regulatory and structural arrangements that are much more difficult to tackle. Multilateral and regional trade negotiations will continue to chip away at both. As we have said, Canadians should make every effort to eliminate such barriers both abroad and at home—not for some ephemeral and unachievable goal of diversification, but because it just makes good economic sense.

To diversify Canadian trade to any measurable degree however, our government would need to tell businesses where to trade, investors where to invest, and consumers what to buy. Other governments would have to do the same. The United States, for example, would need to throw up obstacles to Canadian exports, while the Europeans, Japanese, Indians, Chinese, and others lowered theirs. The trade that resulted would certainly be more "diversified" but in diminished volumes that generate fewer good jobs and lower incomes. For the great mass of Canadians who work in the private economy this would be the path of lunacy. Happily, it is a path that Canadians overwhelmingly reject and that has approximately a zero prospect of being pursued.

A generation ago, European markets represented the holy grail of diversification; today, it is India and China. Over the past two decades, these two Asian giants have taken steps to end years of economic isolation. As *The Economist* recently pointed out, they are again assuming their historic roles among the world's largest economies and most important traders (*The Economist*, 2006, Sept. 14). China, in particular, has become an important exporter of consumer goods and a major importer of machinery and industrial inputs. Canada-China trade and, to a lesser extent, Canada-India trade, has grown over this period. The *total* of this trade still amounts to less than the annual *growth* in our trade with the United States.

Typically for countries at their stage of development, India and China have become major exporters of low-cost, standard-technology consumer goods, machinery, and parts for more sophisticated products. India, additionally, has become a major provider of professional and communication services. These exports compete largely with products from countries further along the development path, from Korea and Malaysia to Brazil and Eastern Europe. Canadians benefit from the downward pressure this competition puts on prices for these products. Both Asian giants are also major importers of resources, energy, and foodstuffs. Canada, to the extent it remains a supplier of such globally priced commodities, benefits from the increased demand for them, whether or not it ships any products to these countries. Thus, Canadians benefit and will continue to benefit from India and China's emergence as major traders, even if Canada itself does not become a major supplier to these markets.

There are benefits to strengthening commercial ties with India, China, and other emerging markets. But these flow from the real needs of Canadian business rather than from any ideological drive to diversify trade. Few barriers remain to the leading OECD markets; these present reliable, but mature, outlets for Canadian exports. India, China, and other emerging markets, by contrast, remain underdeveloped, their potential far from exhausted. That is in part because the risks of doing business there are great. Trade officials can reduce these risks by encouraging development of basic commercial instruments: foreign investment protection agreements, arrangements to avoid double taxation, and industrial cooperation accords. They can deepen relations through technical-assistance and capacity-building projects.

At the same time an equal opportunity exists to pump up the other side of our trade balance sheet with these nations by taking the steps we have already identified at home: eliminating Canada's remaining tariffs, restraining overzealous antidumping investigations, and abandoning ownership restrictions, supply management, and other inhibitors to imports of products and investment from emerging economies.

FTAS WITH MINOR PARTNERS: MUCH ADO ABOUT TOO LITTLE

Effective diversification will not be accomplished by pursuing free-trade agreements with minor partners. While such agreements do little harm, they also do little good. They represent the increasing fondness in official Ottawa for activity over results. Negotiations with the European Free Trade Association, Singapore, Central America, the Dominican Republic, and Korea, and efforts to conclude a *Canada-EU Trade and Investment Enhancement Agreement* or the *Free Trade Agreement for the Americas* (FTAA), the APEC talks, and Team Canada missions to every corner of the globe, consume a disproportionate amount of time and energy. These efforts are marginal to Canada's primary interests, though they may have some utility in declaring Canada's commitment to freeing trade, particularly with poorer nations.

Nonetheless, realism is called for particularly since few of these negotiations are going anywhere. Negotiations to establish an FTAA have run aground on the incompatibility of Brazilian interests with US political realities. Brazil's ambition for regional hegemony clashes with American designs for US-dominated hemispheric trade. American decision-makers meanwhile assign high costs and little gain to an agreement that opens the United States market further to competitive Latin American farm products. While some countries—Venezuela, Bolivia, and potentially Ecuador and Peru—are veering off on nationalist adventures uncongenial to trade liberalization, others are seeking and obtaining bilateral deals with the United States away from the FTAA table. The prospects of breathing life into the FTAA are, therefore, poor and Canada in any case is little more than a well-meaning bystander.

Similarly, the Asia-Pacific Economic Cooperation (APEC) free-trade negotiations effectively died with the Asian financial crisis in the late 1990s. Major countries—Australia, China, Malaysia, and Korea—are putting their effort into either intra-regional trade arrangements or bilateral deals with the United States. Whatever broader purposes the APEC may serve, free trade is not among them.

Canada's pursuit of bilateral free-trade agreements with the rump of the European Free Trade Association (Norway, Switzerland, Iceland, and Liechtenstein) and the Central American Four (Guatemala, El Salvador, Nicaragua, Honduras) has likewise foundered in the face of small pockets of politically significant domestic opposition: shipbuilding in the former case and clothing in the latter. More recent negotiations with Korea face opposition from the well-organized auto sector. Canadians generally might benefit from these agreements but their prospects are slim so long as the potential gains are small and dispersed and opposition concentrated and well organized.

Finally, there is another hazard to proliferating FTAs with minor trade partners. They may actually complicate a more important goal: reducing the cost and complexity of administering our border with the United States. We believe that Canada should seek a common external tariff with the United States. Multiple FTAs, each with its own schedule of commitments on tariff concessions, make this harder. At this point, each FTA Canada has implemented has a United States equivalent; some that are in negotiation do not. The United States itself has more FTAs than Canada and this alone will create enough difficulty. Canada does not need to add to it.

In short, it is a question of focus. Canada's government needs to guard against becoming captive to trade initiatives that bring us virtually no measurable benefit. There is no shortage of lobbyists and foreign leaders who would like a place on Canada's trade agenda. Many of their ideas may have some merit. But our government need not be their champion. There are bigger stakes on the horizon, and they must be given priority though Canada should remain informed and willing to participate when such ideas do not conflict with our larger interests or involve too great a diversion of resources.

CONCLUSIONS

Canada's prosperity soars or stalls on the wings of trade. Our economy is substantial compared to some, but small by world standards. Without access to foreign markets, Canadian firms are unlikely to attain the scale required to finance innovation. And only through innovation can Canadians enjoy rising prosperity. The first priority of our foreign policy must therefore be to champion and practise freer trade.

Our approach in the past has, with few exceptions, been in keeping with our character: incremental, pragmatic, and cautious. More could have been done, or done more boldly. But those tasked with the responsibility have appreciated the realities: trade and investment are mainly private sector activities. Government can facilitate or frustrate these, but seldom does it participate; and in those rare cases where it does—through, for example, crown corporations—the record offers little to suggest it can do better than the private sector. Slowly but steadily, Canada has opened its economy and has become increasingly adroit at good trade practice. While there remain dissenters, support for free trade and open markets is now clearly the optimal position for Canadians. Domestically and internationally, the stage is set for Canada to reap the full benefits of the global economy.

At home, Canadians should sweep out the last vestiges of the National Policy and demand that markets be allowed to determine who will produce what for whom. From milk and poultry quotas to aerospace subsidies, from limiting telecom ownership to tariffs that coddle (and constrain) clothing and footwear firms, Canadians should pull the last props from beneath the uncompetitive and release the last curbs that hold back the strong. Government should stop trying to support losers and pick winners.

Abroad, Canada should pursue results rather than ideologies. Whether we act alone or with multiple partners, the rules of trade we adopt must reinforce rather than seek to replace market judgments. The goal must be a truly open, truly competitive global economy. This is a matter of fundamental freedom as much as economic efficacy. Governments that forbid their people to buy products from other countries or tax imports more heavily than domestic goods infringe their citizens' liberty. Only the strongest grounds justify such infringement. International free trade agreements that deter trade barriers protect Canadians' freedom.

But our paramount focus must be the United States. Our relationship with America is unique. It is the only one we have that embraces every dimension of public policy, security, economic development, and human contact. Favoured by proximity, size, similarity of legal and popular cultures, and a common language, the United States has become the overwhelming first choice of both Canadian exporters and consumers—to the point that our two markets have become deeply integrated. Over time, Canadian firms will find additional opportunities in other markets, but only if they earn enough in North America to finance the effort. There is no other trading partner from whose growth, indeed from whose doubling or even trebling growth, we stand to gain as much as we do from merely incremental expansion in the United States. Deepening integration with the US economy must be on the agenda as the best way for Canadians to increase our trade, prosperity, and leadership potential. We discuss the opportunities to accomplish this in the next chapter.

RECOMMENDATIONS FOR ENHANCING CANADA'S TRADE

Freer trade offers the most effective means to increase Canadian prosperity and empower our citizens. It offers a compelling focus for action. We believe the following steps are appropriate:

- Eliminate the last vestiges of the National Policy mindset, from supply management and business subsidies to ownership restrictions in transportation, telecommunications, and financial services to allow Canadian firms to become more productive and competitive in international markets.

- Pursue a customs union and common external tariff with the United States, using the process to lower remaining tariffs and reduce cross-border transaction costs.

- Institute full cost recovery from clients of government export promotion programs, including clients of the Export Development Corporation. The long-term goal should be to hand over such activities to private sector institutions.

- Let markets decide with whom Canadians trade, either as exporters or as consumers. Ideologically driven efforts to diversify trade patterns substitute political and bureaucratic preference for market judgment and impoverish rather than enrich Canadians.

- Government should continue to support Canadian exporters by working to expand market access, resolve specific trade problems where possible, and fully exercise Canada's trade agreement rights. At the same time, Canada should live up to its own commitments and ensure that our domestic market is fully open to foreign competition.

- Free-trade agreements with minor partners should be pursued only to the extent that they do not interfere with key Canadian trade goals.

3 THE ESSENTIAL RELATIONSHIP

CANADA AND THE UNITED STATES

THE INDISPENSABLE PARTNER

"It is the ultimate irony, but one very reflective of our history, that our capacity to protect our own interests is enhanced when we engage even with the dominant power of the day; when we disengage, our influence diminishes."

—Senator Hugh Segal (2003)

"While there are differences, the commonality of our interests is overwhelming, though much less topical. In international fora the world over, from the G7 to NATO to the WTO, Canada and the United States agree more often than they disagree because for the most part our interests align. While we feel pride in our differences as a nation and a people, we fool ourselves and put our vital interests at risk if we fail to be conscious of our similarities."

—John Manley (2005) Former Canadian Foreign Minister

We agree with both Hugh Segal and John Manley: Canada has much more in common with the United States than we have differences. Our capacity to promote Canadian interests and protect our vulnerabilities, moreover, is far more effective when we work with our American neighbours. Yet over the past decade and a half Canada's diplomatic focus has drifted away from our most important relationship.

The new government led by Stephen Harper has devoted considerable attention to restoring that focus and undoing the damage of recent political indulgence. It has made an important start to returning the relationship to the close terms of a generation ago. But more is required. Canadians need to summon the intellectual discipline and care necessary to obtain mutual benefits on both the economic and security fronts; we cannot afford to ignore either. Without such an effort, the relationship will continue to drift and Canada will move further down the list of countries the United States perceives as vital to its interests. Should that happen our influence in both Washington and around the world will wane and Canadians will be the losers.

The time has come to embrace a mutually beneficial, ever deepening integration of our continental economy with new rules and institutions designed to render the border between our nations as invisible to commerce as possible while preserving valued differences of identity and social priority. The alternative—raising barriers to integration for the sole purpose of creating distance between ourselves and the United States while seeking to replace this vital relationship with other partnerships—is the route to a less prosperous and secure, more isolated future.

The ball is in our court. Dwight Mason, a former deputy chief of mission at the US embassy in Ottawa, describes US policy toward Canada as "fragmented, derivative and a function of the priorities of agencies and groups focused on particular US domestic issues" (Mason, 2005, p. 2). Canada, therefore, must supply the vision and initiative. To that end, Canadians must accept that our network of trade, security, environment, regulatory, and other cross-border arrangements has fallen behind the present realities of our relationship and the world. These networks and relationships worked well enough in the past. But in the face of terrorism and other threats, the issue today is how to strengthen joint security arrangements so that both countries can seize new economic opportunities and advance common interests.

While people in either country may at times celebrate our differences, reflection reveals our many similarities, common values, and shared goals. These are already driving the convergence of public policies, including security, immigration, food safety, the environment, and more. The remaining differences lie mostly in the choice of means rather than the ends themselves. The need is not for total harmonization—let alone homogenization—but for more sharing of information, cooperation, and coordination. What counts most is that the two governments share the same objectives and have confidence in each other.

Over the past two decades, as a result of policy choices and the evolution of technology and commerce, the Canadian and American economies have become deeply intermeshed. This has occurred through trade in goods and services, by way of mutual investment, cultural exchange, and the deepening of inter-corporate and personal relationships. This integration can only deepen naturally wherever our two societies connect, resulting in an interdependence that is, as it has always been, asymmetrical—and thus of particular concern to Canadians. The question for Canada's government is whether to help or hinder the relationship, to manage it or let it drift.

We believe the choice is obvious. As historian Jack Granatstein concludes: "We share a continent, most values, many traditions, and much history. Ultimately, we share our bed with the Americans. After all, we Canadians helped make this bed, we lie in it, and we need to face up at last to the reality of our situation. Moral earnestness and the loud preaching of our values will not suffice to protect us in this new century. We have to put interests ahead of values, hard-headedness before wishful thinking. The alternative is too self-destructive to contemplate" (Granatstein, 2003, p. 27).

Two imperatives drive Canada's diplomacy toward the United States. One is unique to Canada; the other we share with most other countries. The first derives from Canada's geographic proximity, asymmetric interdependence, and deepening integration with the economy of the United States. The second flows from the sheer predominance of the United States in world affairs. Our goals will not be advanced by putting rhetorical or policy distance between Canada and the United States. The lifeblood of diplomacy is access, and nowhere more so than in Washington. Access is critical to influence and influence essential to persuade American decision-makers to be responsive to Canadian concerns. For Canada, therefore, access and influence must be the helix at the centre of our diplomacy toward the United States. To gain the confidence of the United States in Canada as a reliable partner requires sensitivity to security as the crucial American priority.

STUMBLING BLOCKS TO MORE PRODUCTIVE RELATIONS

It was perhaps inevitable that any relationship as important to Canadians as that with the United States should generate its share of myths and misconceptions. Some of these are relatively harmless. Others are deeply inappropriate adjuncts to the desire for a deeper and more mutually beneficial relationship.

For some Canadians, relations with the United States are a matter of distance. They wish to hold America neither too far away nor too close. Distance, however, provides no guidance on any issue that may arise in the relationship. On many questions, from air transport safety to the prevention of disease, from promotion of cultural programs to refugee acceptance, Canada is best served by nourishing the highest degree of cooperation with the United States.

For its part, US policy toward Canada is purely interest-driven. We believe the same compass should guide our policy. The relationship will both "feel" and function best to the degree that we are guided by a clear sense of our interests, not distracted by subjective perceptions of intimacy or remoteness. As Canada's diplomatic sage, John Holmes, put it: "We should talk less about 'closer relations' between the two countries and more about 'better relations,' which are not necessarily the same thing. Nature has made us about as close as we could possibly be and this has made it all the more necessary that relations should be carefully structured" (Holmes, 1989, p. 314).

Some pundits believe that building a more productive relationship with the United States will come at the price of unacceptable sacrifices of sovereignty. Sovereignty, however, is not a goal but an instrument of national policy; a means, not an end. Canada has led the way in promoting, negotiating, and accepting a rules-based system for the conduct of international relations. The pursuit of more demanding forms of cooperation flows logically from those earlier efforts. Deepening bilateral integration with the United States, in particular, challenges us not to surrender but to exercise our sovereignty to achieve important national objectives.

Some Canadians also hold the view that Canadian and United States assessments of the world around them are significantly different. In fact, they are not. Such differences as there may be do not flow from fundamentally different values or priorities but from different roles. The United States is the world's only superpower, with unique interests and responsibilities. Canada is its closest neighbour and, generally, closest ally. Issue by issue, our views usually coincide, even if the approach to them may differ.

Still other Canadians appear to believe that Canada's influence with the rest of the world is proportional to our ability to demonstrate independence from the United States. This is perverse. Experience shows that our ability to be a player on the world stage depends much more on the strength of our cards in Washington than the other way around. The rest of the world sees Canada as the "other" North American country, closely allied with the United States and deeply experienced in dealing with US officials but more accessible than the superpower. Canada's influence with the rest of the world thus derives directly from our ability to work with the United States and is diminished to the precise degree that we stand off. This does not require Canada's slavish acceptance of US policies and priorities. Addressing differences, however, does demand effective diplomacy and an ability to distinguish between issues of national interest and those of political convenience.

The prospect of further economic and security integration prompts some Canadian analysts to worry about the establishment of a Fortress North America. That fear is hard to find credible. Canada and the United States are among the most open countries in the world, welcoming goods, services, investment, ideas, immigrants, and refugees from around the planet. Our very desire to preserve our openness accentuates the need to guard against those who might take advantage of it to harm us or flout our laws. Both countries take protective measures, often on a cooperative basis. Updating arrangements to correspond to the threats of the 21st century is no more than good common sense. It need not, and is hardly likely to, undermine the historic openness of our societies.

There is also some fear that, facing reverses in the Middle East and criticism from abroad, America will withdraw into isolation. The siren song of isolationism has been a constant in American history. Facts on the ground, however, make it neither a credible nor a sustainable policy for any US administration. America's global interests preclude it. From Canada's perspective, the challenge is to ensure that we have influence in Washington, no matter which way the winds blow there.

Many more Canadians worry that the asymmetry between US and Canadian power leaves the United States no reason to accommodate Canadian interests, placing us in the position of supplicants. Asymmetry is a fact of life that we cannot change. The absolute values of each country's trade and investment accounts with the other are roughly equal. But because those values are relative to a United States economy fourteen times larger than Canada's—and because United States interests are dispersed more widely around the globe—our bilateral trade is about eighteen times more important to Canadians than it is to Americans. The significance of each country's investments in the other similarly looms larger on Canada's radar screen than on America's. This imbalance is more pronounced today than a generation ago. But it does not necessarily follow that Canada lacks all influence. As Harvard's Joe Nye puts it: "The idea that Canada always loses or that Canada is the servant of the Americans just does not stand up to the historical test" (Nye, 2002, p. 7).

With so much on their plates, however, US leaders will need to be convinced that vital American interests are put in peril by allowing deeper economic integration to become hostage to outdated rules, procedures, and institutions. We are most likely to get and hold their attention with a comprehensive initiative that addresses the full range of trade, investment, regulatory, and security issues on both sides.

Finally, there remain some Canadians who believe that the last major institutional advance in economic integration—NAFTA—failed.

They contend that its trade-dispute settlement mechanism has not protected Canadian companies. The evidence is otherwise. Between 1994, when NAFTA came into effect, and the late 1990s (the period studied in the most recent available research) Canada faced few investigations for trade violations and won the majority. Over the same period, the European Union confronted five times as many investigations and seven times as many remedy orders as Canada. Japan's exports to the United States are much smaller than Canada's, but it bore twice as many investigations and six times as many orders in the same period (Macrory, 2002; Rugman and Kirton, 2000). NAFTA has not only worked, it has worked well for Canada.

GOOD RELATIONS ARE KEY TO PRODUCTIVE RELATIONS

For Canada, good relations with our giant neighbour are a prerequisite to almost every other foreign policy pursuit. For Canada to be effective with the rest of the world, it must first be more deliberate in its dealings with Washington. Our focus on the bilateral agenda must be clearly informed by political and economic priorities on both sides of the border. We will need to be far more attuned to coalition building. Only by forging effective alliances with bureaucratic, Congressional, and domestic constituencies in the United States will we advance our own agenda. At the same time, Canadians should acknowledge the strong cards we hold in pursuing our interests in Washington.

Our strongest card is a long, open border with the United States. Virtually every other country envies the benefits that flow from Canada's proximity to the world's most dynamic, energetic, and productive nation. To be sure, proximity brings friction. The United States is not always an easy neighbour. Power has its prerogatives and the United States is not shy about claiming them. Events in the United States can spill over into Canada, reasonably or not. On balance, however, few Canadians would trade the benefits of proximity for the disadvantages of distance.

INSIDE THE BELTWAY

The United States is the world's most powerful and most democratic country. The combination of these two characteristics makes Washington a very challenging place to do business. Every domestic and foreign interest is represented in the world's most important capital and competes feverishly for favour and attention. As Allan Gotlieb observed after his seven-year tenure as Canada's ambassador there, "in Washington ... a foreign power is just another special interest, and not a very special one at that" (Gotlieb, 1991, p. 43).

Gaining attention and maintaining influence in Washington, therefore, is a highly developed art form. It starts with learning to work within the reality of the separation of powers. In fact, power is so finely divided and widely dispersed in Washington that it seems at times that no one is in charge. The president is by far the most important player in Washington, wielding both constitutional power and political influence. Unlike the prime minister in Canada, however, on many issues he has only the power to propose while Congress has the power to dispose—and the courts the power to disallow. Getting anything done in Washington, therefore, requires getting all the powers on your side. Gridlock is the default position. Bringing closure on a file, any file, is a major accomplishment.

Canadians have never warmed up to the highly adversarial and noisy way in which things get done in Washington. They prefer the more consensual and quiet way Ottawa operates. They also like a prime minister who gets things done without rubbing their faces in what it takes. The biggest problem for us, however, is confusing how the two capitals work. Whether they like it or not, Canadians need to be effective players in Washington. They must learn both the chutzpah and the patience that are needed to make a difference. And they need to be prepared to spend the resources required both in Washington and around the United States to gain access and ensure influence.

Proximity can also breed complacency and misunderstanding. Americans tend to be blithely ignorant of things Canadian, and Canadians, by contrast, are only too aware of the United States. At times we can be suspicious and fall prey to misconceptions of our own. Both tend too easily to harbour stereotypes of the other. And both too readily assume that proximity has bred similarity. Canadians and Americans do share many values and aspirations but we live in different societies with different politics and priorities. Viewed from afar those differences are minor; close up they loom large and invite missteps.

If Canada is to overcome these differences and engage America in pursuit of shared interests, it is critical that we focus on the object, purpose, and content of better relations. The inescapable factor here again is proximity: like it or not, Canada lies squarely within the US security and economic perimeter. Canadians may be more comfortable with the economic aspects of proximity, but we must accept that in the present climate it is security that appears on the US radar screen.

In fact the security perimeter has been in place at least since the late 1930s. At that time, US President Roosevelt made it clear to Prime Minister Mackenzie King that the United States viewed with grave disquiet the utter inadequacy of Canada's military. In the event of war, the United States was not prepared to tolerate Canada's becoming a launch pad for attacks upon it. The choice for Canada was clear, as King recognized: Canada could defend itself or the United States would do the job and, in so doing, serve its own interest. The creation of the Canada-United States Permanent Joint Board of Defence in 1940 institutionalized the two leaders' vision of a joint approach to North American security. Canada has ever since been an integral part of a continental security strategy defined, determined, and almost entirely implemented by the United States.

Canada is inescapably part of the North American economic sphere. As we noted in the previous chapter, three-quarters of Canada's international trade is conducted with the United States. A growing portion of this is intra-industry and even within companies. There is every reason to expect this integration of our economies to continue and no reason to imagine that Canada will suddenly choose to exchange the prosperity it has created for the quixotic pursuit of expanded trade with other countries.

In these circumstances, the pre-eminent task of Canadian trade and foreign policy is to bring the architecture of the Canada-United States relationship into alignment with our deepening interdependence. Historically, the two countries have managed their complex relationship on an item-by-item basis. Governments have, in fact, typically taken great care to prevent sentiments surrounding one issue in the relationship from affecting the handling of others. This pragmatic approach may have served both countries well in the past, but it is now out of date. Before September 11, 2001, bold initiatives on trade or the economy might have been considered on their merits. Today no initiative on the economy has any chance of gaining attention in the United States unless it also addresses security.

ENHANCING OUR COMMON SECURITY FOR MUTUAL BENEFIT

The terror attacks on Washington and New York transformed America's view of the world. Fear for its physical security now overrides all other considerations. Until 9/11 an open Canada-United States border—and relatively free mobility of goods, services, and people across it—was taken for granted. Washington's response that day demonstrated how quickly it can seal the gates if it feels sufficiently threatened. Canada has a new role in the American consciousness that has little precedent. Within this new reality Canada can no longer freeload on America's commitment to continental and global security nor complicate those efforts merely because to do so seems politically attractive. Geography dictates that Canada and the United States work together for our mutual security.

Canada does not share a land border with any other country. At best, arrangements with third nations can complement our security co-operation with the United States; they cannot replace it. Fortunately, the foundations of cooperation are strong. The Canadian and US militaries enjoy deeply harmonious relations based on years of joint training, similar equipment, and shared attitudes. Americans do not need Canadian forces to get the job done, but they see value in Canadian moral and political support in a dangerous world. Increasing our defence spending, Canada's active service in Afghanistan, and our support elsewhere project a symbolic importance that should help restore US confidence in our ability and willingness to secure the northern front.

But Canadians must be ready to adjust our thinking as well. We must accept that the pressures of integration are as inescapable in the security realm as they are in the economy. And as with trade, the best way to manage these pressures is by strengthening formal and informal institutions that serve to reduce the asymmetry of power and level the playing field. Such institutions expose Americans to Canadian concerns and manage expectations through the adoption of shared norms, common procedures, and agreed standards of behaviour. They provide an arena in which both sides can plan for the future and in moments of crisis reduce the temptation to resort to ad hoc responses.

The Conservative government has brought a renewed sense of strategic vision and purpose to Canada's national security policy. But there are three dimensions to our security relationship that require attention:

- The evolution of defence cooperation with the United States in a post-9/11 world.
- Border management and related issues of security, law enforcement, intelligence, and protection of infrastructure.
- Blowback pressures on Canadian foreign and defence policy from US action in the wider international security realm, especially in pursuit of its global war on terrorism.

These new challenges in the Canada-US security relationship suggest that traditional assumptions and policy frameworks will need to be re-examined. Legacy institutions may no longer be appropriate to Canadians' present needs and future aspirations.

CONTINENTAL DEFENCE

Historically, Canada's commitment to the defence of North America has been structured through NATO rather than bilateral institutions. Even so, from the Second World War on Canada has enjoyed a uniquely close defence relationship with the United States. It is reflected in the establishment of the Permanent Joint Board on Defence in 1940, the creation of NORAD in 1958, and the more recent establishment of the Binational Planning Group in 2003. In the current environment it is clear that the tradition of subordinating bilateral cooperation with the United States to the broader North Atlantic Alliance is no longer sustainable.

In our view, Canada's interests will be better served by creating new bilateral institutions that respect national boundaries than by leaving ourselves open to unilateral US action if a sudden threat unexpectedly emerges. To that end, we believe Canadians should revisit two unfortunate decisions made by the Martin government: one dealing with the contours of a renewed NORAD to counter land, air, and marine threats to North America; the other rejecting participation in the United States Ballistic Missile Defence program. In both cases, Canada's decisions reflected short-term political considerations rather than long-term strategic realities. And both undermined US confidence in Canada as a security partner. The result was a decline in access and influence without any compensating enhancement of Canadian security (indeed, rather the opposite) or of our standing in the rest of the world.

BORDER MANAGEMENT AND SECURITY

Security cooperation at the Canada-United States border has improved significantly since 9/11. But problems remain, especially in the treatment of individuals. Port-of-entry personnel remain preoccupied with the administration of customs and immigration regulations. The strategic focus remains on controlling points of entry and strengthening frontier patrols, rather than on reinforcing the "virtual border" that resides in the two countries' traffic management and visa control systems (as well as those of third countries).

To bring border management into line with the new security reality and deepening economic integration, a number of pressing challenges must be addressed.

- Visa policies between the two countries are still sufficiently different to cause friction. There is growing pressure to harmonize visa policies (including visa standards, visa issuing practices, and relations with other states) but the complexities are significant and any initiative is likely to encounter stiff political and bureaucratic resistance.

- The "green border" (those thousands of kilometres of geography that separate formal ports of entry into the two countries) remains the "longest undefended border in the world," but this status is increasingly under challenge from new threats. Closer cooperation is needed to place the border under surveillance and to interdict not only terrorists but also conventional criminal elements that seek to exploit vulnerabilities.

- Historically, neither Canada nor the United States has used "exit controls" to monitor aliens leaving their territory. US legislation (Section 110 of the Illegal Immigration Reform and Immigrant Responsibility Act) has now placed this option on the table. Canadians currently enjoy an exemption from US exit controls but that dispensation may prove temporary, raising the prospect of significant new friction in cross-border mobility.

- Travellers embarking for North America from points outside the continent may represent a security risk. Countering this threat will require that Canada and the United States work together and with other nations. Preclearance measures offer a partial answer but visa requirements will also need to be addressed.

- Canada and the United States share a great deal of critical infrastructure, notably oil and gas pipelines, electricity grids, and vital communication and transportation links. These are potentially vulnerable to terrorist attack in either country. Our mutual defence demands close cooperation, including intelligence-sharing, to reduce vulnerabilities.

EFFECTS ON CANADA OF US SECURITY POLICY AND ACTIONS

If the relationship with the United States dominates our foreign policy options—as it must—and security dominates the US agenda—as it does—then Canada cannot afford to be any more indifferent to America's prosecution of its security mission internationally than we are to its priorities on North American soil. Whether the US "stays the course" in the Middle

East and elsewhere, focuses aggressively on terrorism and other threats, withdraws into isolation, or pursues a middle course in cooperation with traditional allies, Canada will be affected. The Canadian public may well prefer the middle course, but the government must shape a response based on Canadian interests rather than sentiments. Our interests are poorly served by disdain for an American assessment of its threat environment that differs from what is popular in Canada. In fact, while Canada and the United States may disagree on tactics and emphasis, each country's perception of threats is generally indistinguishable from the other.

If Canadians wish to contribute to global peace and security they can only do so effectively as partners with the United States. Canada's capacity on its own can only, at the best of times, be small and symbolic. On the other hand Canadian efforts in concert with the United States can be transformative. As former Canadian ambassador to the United States Derek Burney points out, "if we establish a constructive relationship with the United States—asserting and defending key elements of our most vital relationship in a mature, focused manner—we will also be better able to advance other global objectives" (Burney, 2005).

ENRICHING ECONOMIC INTEGRATION

If the security of its citizens stands at the top of any government's responsibilities, prosperity is not far behind. Issues concerning bilateral trade, investment, and regulatory compliance dominate the days of thousands of officials and their political masters in both countries' capitals. Little of this is guided by any strategic view of priorities or direction. Canada's preference for compartmentalizing issues may have kept some potential conflicts in check while preserving the broader relationship. But it has also frustrated progress on major files and failed to keep up with changing realities. A global realignment of economic power, shifts in the US political landscape, and the two countries' deepening economic integration all compel a new and comprehensive Canadian strategy.

ENERGY AND SECURITY

Americans see a very close connection between energy and security. The United States relies on domestic supplies for much of its energy, but the size of the United States economy is such that these resources are not enough. Even more critically, and whether or not the Europeans and Japanese appreciate it, the United States also worries about the energy security of its allies and trading partners. Any threat to global energy supply and distribution networks, therefore, gets immediate and full attention in Washington.

Most Americans do not realize that Canada is their most important supplier of energy. Fully 17 percent of the energy Americans consume every day originates in Canada, carried by a network of oil and gas pipelines and electricity transmission lines. The Midwest relies on Canada for half its energy needs. Canada is much more important to US energy security than all of the Middle East combined.

While Canada could be energy self-sufficient, the location of oil, gas, and electrical generating facilities is such that it makes sense to trade energy in both directions. Over the years, Canada and the United States have developed an integrated energy market with shared distribution networks. Governments in both countries have gradually accepted that the market should largely determine the future development and distribution of available energy.

This energy interdependence is now largely self-regulating and works to our mutual advantage. There are, however, gaps that would benefit from attention on both sides of the border. New facilities to bring energy from Alaska, the Mackenzie Delta, and the Alberta oil sands to consumers in Canada and the United States, for example, need to be developed together. Ensuring that integrated electricity grids work as intended cannot be done without close coordination.

In these circumstances, there is much to be said for Canada and the United States developing a North American energy security accord that looks at the best way to develop and distribute the continent's resources to the benefit of people on both sides of the border.

The 2005 Security and Prosperity Initiative adopted by Prime Minister Martin and President Bush and confirmed by the Harper government a year later laid a promising foundation. Both governments now receive regular status reports on its implementation. The earlier Smart Border Accord gave security and access to the United States a higher priority than before September 11. Both, however, operate within existing laws and policies and are therefore limited in scope. Extracting the full benefit of deeper integration requires a more ambitious initiative.

British economist David Henderson has defined integration of the kind that North America is experiencing "as a tendency for the economic significance of political boundaries to diminish" (Henderson, 1994, pp. 179-80). The diminishing economic relevance of political boundaries disposes countries which are becoming more integrated to create common policies to regulate commerce, external trade, and investment. Canada and the United States, while formally committed to no more than a free-trade area, have in reality already implemented some aspects of a customs union and even of a common market. Based on broadly shared perspectives, the two governments have developed a dense network of consultative arrangements that ensure a high degree of convergence in their respective policies.

These manifestations of economic integration have now largely realized the benefits of traditional liberalization between Canada and the United States. The constraints on two-way trade and investment today are not the classic tariffs and quotas of old, but more subtle differences embedded in regulatory detail. Many of these may be enforced at the border, but they will only be resolved by cooperation or coordination between the two national capitals.

REDUCING THE ECONOMIC EFFECT OF THE BORDER

The international border has always been a critical presence in Canada's economic development. Efforts to either enhance or offset its impact have been a recurring theme in Canada-United States relations. It makes sense for an investor to serve the combined North American market from inside the larger market's territory. A constant goal of Canadian policy has been to offset this natural bias. Alleviating the burden created by border management is critical to this end. The current high level of trade reflects considerable success in the effort, but significant barriers remain, particularly in the treatment of cross-border traffic.

To realize the full benefit of deeper integration of their two markets, Canada and the United States must agree on a comprehensive program to reconcile remaining differences in regulatory practice and market governance. Reaching agreement on such a program will require that at least the following elements be included:

- A common external tariff and related programs. As we noted earlier, Canada has much to gain from eliminating its tariff altogether. As a start, however, it can work with the United States to establish a common external tariff eliminating the need for cumbersome rules of origin in bilateral trade and reducing the need for border controls on the movement of goods. The easiest way to achieve a common external tariff is to adopt the lower duty applied by either country.

- An agreed approach to non-tariff customs treatment of third-country goods, including non-commercial restrictions on third-country trade such as foreign policy and security-related sanctions.

- Commitments to address remaining sectoral trade problems, particularly in agriculture. Both Canada and the United States maintain high levels of protection for certain agricultural commodities but the two lists of sensitive products are not the same. The private sector has already made good progress toward integrating the agri-food sector, making this task potentially less daunting than it proved during the Canada-United States Free Trade Agreement and NAFTA negotiations.

- Formal and irrevocable commitment to a fully integrated cross-border energy market. Canada and the United States took important steps in the Canada-United States Free Trade Agreement to facilitate the free flow of energy products between the two countries. Industry has since invested heavily in cross-border pipe and transmission lines. Canada is now the leading supplier of energy to the United States. A stronger treaty basis may be needed, however, to ensure full coordination of regulatory requirements, encourage further investment in new energy sources, and bolster American confidence in Canada as a secure supplier.

CANADA-US BORDER FACTS

About 70 percent of Canada's trade with the United States (by value) moves in or out of the United States by truck. About thirteen million trucks crossed the border in 2005, or about 36,000 per day; the Ambassador Bridge between Windsor and Detroit alone handles some 7,000 trucks a day, or one every minute in each direction, 24 hours a day. On 13 September 2001, the line-up of trucks waiting to cross the bridge into the United States stretched 36 kilometres.

Industrial integration and the application of just-in-time production technologies have made an increasing number of plants on both sides of the border extremely vulnerable to delays. The automotive sector, for example, estimates that unexpected shutdowns due to the late arrival of parts can cost the industry up to $25,000 per minute, costs that will ultimately be reflected in the price consumers pay for vehicles.

About 75 percent of bilateral trade in goods moves through five border crossings: two at Windsor-Detroit, one at Fort Erie-Buffalo, one at Sarnia-Port Huron in Ontario, and one at White Rock-Blaine in BC. These border crossings have reached their physical limit in processing both goods and people under current arrangements.

Nearly 150 million individual crossings take place at the Canada-United States border each year, an average of close to half a million every day; 25 million cross in the Detroit-Windsor corridor; another 25 million use the Buffalo-Niagara corridor; and 15 million cross between British Columbia and Washington.

In a typical year, up to 15 million Canadians travel to the United States for one day or more to break up the long winter, visit friends and relatives, conduct business, or pursue other objectives. Over the course of the winter, some 1.2 million Canadians spend one night or more in Florida.

On the Canadian side of the border there are 135 land-border points, 140 inland offices, 203 airports (13 international), 187 commercial vessel clearance points, and 313 marine entry points. Many of these are small and do not operate on a 24-hour basis. The United States similarly staffs the 135 Canada-US land-border points as well as pre-clearance facilities at eight Canadian airports but, given its much denser population, maintains many more inland offices, airport facilities, commercial vessel clearance points, and small marine ports of entry.

In addition to security and immigration responsibilities, customs officials at the border ensure compliance with numerous regulations governing the movement of goods and individuals. The Canadian Border Services Agency administers 96 statutory instruments on behalf of various federal departments and agencies; United States Customs administers some 400 statutory requirements.

The Canada-US border is more than 5,500 miles long. Policing that border is a difficult task. Nevertheless, both Canadian and American officials agree that more than 99 percent of the people who cross the border are properly documented, do so for legitimate purposes, and pose no risk to either country.

- An agreed approach to trade remedies for each other's products and/or for third-country products. Despite a decade and a half of free trade, the application of trade remedies in a few sectors continues to affect the relationship. Intra-corporate and other structural commercial integration has virtually eliminated pursuit of trade remedies by manufacturing and industrial firms. Problems persist in natural resources and agriculture, however. Many of these relate to different approaches to resource pricing. This suggests that addressing the differences that give rise to complaints may be more fruitful than further efforts to deter resorting to trade remedies.

- Progressive access to government procurement markets. "Buy American" and "Buy Canadian" requirements continue to distort the sensible deployment of industrial resources and fail to reflect the integrated nature of North American producers. The time has come to move toward a fully integrated government procurement market.

- Improving regulatory coordination, reducing overlap, and relying more on mutual recognition. Formal agreements and silent integration have accelerated regulatory convergence and narrowed differences. But they have neither eliminated existing inconsistencies (in design, objective, implementation, and compliance) nor discouraged new ones from emerging. These distort market efficiency and impose needless costs. In the past, governments attempted to reduce these consequences by agreeing to frameworks within which they would exercise their regulatory responsibilities. That approach is no longer sufficient. Instead, new institutions are required to achieve a much higher level of cooperation, coordination, and even joint decision-making. (See Hart, 2006 for a more complete discussion of what a more deliberate approach to cross-border regulatory cooperation would involve.)

FOCUSING ON DIFFERENCES THAT MATTER

The differences in objective, approach, and rationale of a wide range of Canadian and American laws and regulations are minor and, in most instances, unimportant. Those that do exist are usually matters of detail, the result of different histories, legislative practices, regulatory styles, and implementation experiences. In the final analysis, however, such differences are marginal in their impact. The need is not simply for harmonization, but for more sharing of information, cooperation, and coordination, both within each country and between Canada and the United States.

Officials on both sides of the border are aware of every detail of difference; many perceive their livelihoods to depend on these differences. It is not surprising, therefore, to find ministers being briefed about the importance of some of the differences and being told that addressing these differences is not a "simple" matter. That is true, insofar as it goes. Eradicating the differences that exist could, in many instances, prove a complex matter; it is also, in most instances, unimportant. What counts is that the two governments share objectives and have confidence in outcomes. That is a more important objective and much easier to attain.

Mutual Recognition Agreements, for example, offer a technique that falls short of the tyranny of harmonization to big-economy standards while meeting the political requirement of democratic governance of the market. Canada and the United States already have a number of such agreements and need to consider more.

- A new approach to border administration. European governments have learned that well-functioning integrated markets require mobility in all the factors of production and supply. Reducing, even eliminating, the effect of the border checkpoints on travel and most transactions is critical to ensuring that Canadians and Americans alike gain the full benefit from existing economic integration. Currently, border management requires the enormously costly administration of a dense array of laws, regulations, and procedures. The anticipated transaction and compliance costs, including the cost of unpredictable delays, grossly distort investment and trade decisions. Many procedures administered at the border involve either regulatory compliance (underlining the need for greater regulatory cooperation) or security (reinforcing the importance of greater attention to the "virtual" border). But Europe's Schengen Agreement, which allows for total mobility of people among

13 participating countries, has shown that it is possible to achieve a much less intrusive border among countries that have arrived at a high level of integration. A key there has been agreement on the treatment of third-country nationals.

TAKING ECONOMIC INTEGRATION TO THE NEXT LEVEL

In international relations, as in business or in life, stand-pat is almost never an option. If Canada chooses not to manage our relationship with the United States toward a new level of seamless access and a common outlook to the world beyond the North American perimeter, if we are passive toward the progressive integration of our markets and neglect to address remaining incongruences, the inevitable drift will be backward. As the smaller player in the relationship it is therefore imperative that Canada seize the initiative and propel the conversation.

Our values are not in danger, whatever the faint-hearted may imagine. Our interests are clear; we believe the foregoing sections identify the most salient. But our success in pursuing any of these objectives, however economically desirable they may be for both nations, will depend entirely on America's confidence in Canada as a partner in matters of international security. Progress on the security agenda is key to progress on the economic front. To manage the more ambitious features of an agreement on further economic integration, moreover, Canada and the United States will need to institute permanent new structures capable of continuous adaptation to the demands of a dynamic North American economy. As Allan Gotlieb has described it, one essential product of a deep integration initiative should be a jointly administered "community of law" in North America (Gotlieb, 2003).

This agenda will encounter materially less political difficulty if the Canadian government proceeds at the same time with the broader trade and domestic reforms we outlined in Chapter 2. Among Canada's economic partners only the United States has sufficient presence in our market to find the impact of those reforms on its interests motivating. Pursuit of the two initiatives should thus complement each other.

Our two nations might identify a comprehensive agreement on deeper economic integration as their goal from the outset—or take a step-by-step approach, going as far as possible (or necessary) one issue at a time. There are good reasons to pursue the larger prize from the start. The United States political process, for one thing, more readily entertains a daring vision than a cautious one. “For any initiative to succeed,” Allan Gotlieb has said, “it must meet a number of conditions. It must be bold, it must come from Canada and be espoused at the highest level. It must be comprehensive so as to allow trade-offs and broad constituencies to come into play. It must address the United States agenda as well as ours. Incrementalism won’t work” (Gotlieb, 2003).

Those who watch the Canada-US relationship for a living have often quipped that for any initiative such as this to succeed, it needs to attract a high profile in the United States and keep a low one in Canada. They reason that in the American system any legislative project requires a lot of political oxygen to succeed, while in Canada that very same oxygen will be perceived as too threatening to allow the initiative that generates it to survive. While this conventional wisdom still holds true in Washington, we doubt whether Canadians are as hypersensitive as they may have been in the past. The fact that the dire effects predicted during the free-trade debate of the 1980s failed to materialize seems to have exorcised some demons. We are inclined, as a result, to scepticism that raising the profile of any new Canada-US initiative will inevitably prove politically fatal.

The substantial challenge lies at least as much in Washington as in Canada.

A WORD ABOUT MEXICO

By signing NAFTA into law in 1993, Canada and the United States opened a new era in their relations with Mexico. NAFTA stands as a testament to the belief that North America involves three nations and that the destinies of all three are inextricably intertwined. A broad consensus is emerging, however, that for the moment Canada’s challenge is to develop a bilateral, rather than a trilateral, agenda.

NAFTA's implementation raised expectations of closer relations among its three signatories. But the reality is that it provided a common framework of rules to govern two robust and rapidly evolving, but distinct, relationships: one between the United States and Canada and another between the United States and Mexico. Canada's bilateral relationship with Mexico remains far less advanced. The issues that preoccupy Canada and the United States are not the same as those that arise between Mexico and the United States. There may be a place for trilateral rules and institutions in a few areas, such as surface transportation. In others, such as energy, parallel bilateral efforts will be more productive. To that end, the three governments may wish to consider inviting third-party observers to any two-way discussions they hold, and to encourage any success in bilateral negotiations ultimately to feed into trilateral negotiations.

For Canada, however, Mexico's presence at the NAFTA table is no reason to avoid action on our urgent national interest in pursuing a formal structure to manage irreversible economic and security integration with the United States.

CONCLUSIONS

The end of the Cold War dissolved the comfortable certainties that guided Canadian foreign policy with considerable success for almost fifty years. Over much of that period, Canada came out of its colonial shell and played a mature and responsible role in global governance consistent with its power and national interests. During the last decade Canadian foreign policy has been living off accumulated capital, substituting sentiment over interest and, with a few exceptions, ignoring the radical changes that have roiled global security and economic environment. Canadians expect and deserve a foreign policy that is effective, that achieves results and steps up to our responsibilities—to the international community and to us. Canada must chart a new course for a world in which conventional power is unipolar, dominated by the United States, but in which security threats arise from the unpredictable behaviour of non-state actors and rogue states. It needs to structure a new relationship with the United States that captures the new dynamics.

The most important task that faces Canadians is to restore American confidence in Canada as a reliable partner. That is how most Canadians want to be seen, and it is how most Americans used to feel. Drift, neglect in our relationship, and a number of inappropriate choices have diminished the confidence we used to take for granted on both sides of the border. Building long-term trust will involve addressing our common security needs, strengthening our common border, and pursuing a common vision of a harmoniously integrated North American economy.

We are not alone in calling for a major new initiative to strengthen the Canada-US relationship. The United States Council on Foreign Relations, for example, organized a task force of former political leaders and senior officials, academic specialists, and business leaders to look at emerging challenges in North America. It concluded, as we have, that there is an urgent need to address both security and economic issues on the basis of a bold vision of a "free, secure, just, and prosperous North America" (Council on Foreign Relations, 2005).[1] The American Assembly concluded at its 105th meeting that, "ultimately, the United States-Canada relationship will flourish, and the world will benefit, if our countries work together to address the most daunting global problems" (The 105th American Assembly, 2005). We agree. The time has come to conceive a new accommodation between Canada and the United States.

The issues raised in this section are challenging and move well beyond conventional approaches. We believe that we have presented a strong strategic plan for managing Canada-US relations for the benefit of Canada or, more accurately, for the benefit of Canadians. Its implementation will take work. It will demand creativity, not only from Canada's government but, even more, from Canada's academic, policy, and intellectual communities. But the alternative is to condemn Canadians to live in a less secure

1 While trinational in scope, the task force specifically recognizes the need to approach many of the issues on a two-speed basis, recognizing the differences in priorities and capacity in Canada, the United States, and Mexico.

and less prosperous country. No Canadian would wish that for his or her fellow citizens. A future that relies on anything other than mutual confidence is too bleak to contemplate.

RECOMMENDATIONS

- A good US-Canada relationship is of central importance to Canada across virtually every domestic and international issue and requires that the federal government devote its highest resources to the management of that relationship. Canada's place in the world increasingly depends on its ability to gain and exert influence in Washington, while the ability of the government to advance the security and prosperity of all Canadians depends critically on working jointly with Americans.

- The combined impact of new global threats and deepening and accelerating cross-border integration point to a need for Canada and the United States to update the architecture of their relationship and ensure the development of a joint approach to the governance of their common economic and security space.

- In order to place the Canada-US security relationship on the most mutually advantageous basis, the federal government should revisit the decisions not to participate in the Ballistic Missile Defence program and not to broaden the mandate of NORAD.

- The two governments need to work together to create both a more open and more secure common border for the movement of people and goods. In order to facilitate the further integration of their two economies, the two governments need to create a customs union involving a common external tariff, a joint approach to the treatment of third-country goods, a fully integrated energy market, a common approach to trade remedies, and an integrated government procurement regime.

- Gaining maximum advantage from economic integration requires that Canada and the United States work together to promote regulatory convergence.

- Canada should seek to negotiate with the United States a comprehensive agreement embracing all of the foregoing, and to institutionalise measures to realize the greatest possible benefits from deeper economic and security integration for both our nations.

4 HELP THAT WORKS

REFORMING CANADIAN FOREIGN AID

REFORMING CANADIAN FOREIGN AID

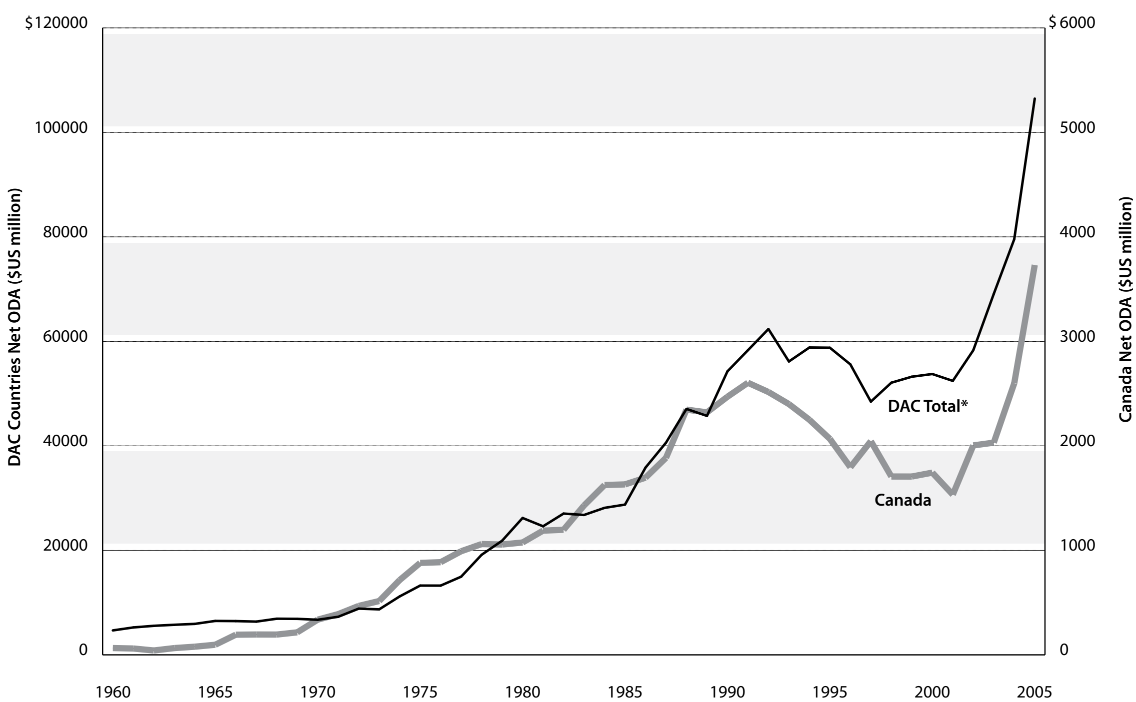
Every year billions of dollars of foreign aid flows into developing countries with the goals of ending poverty and rebuilding societies shattered by conflict. Canadians overwhelmingly support the principle behind this assistance: doing what we can to help those less fortunate than ourselves. We wish to do our share. But the same weakness that crept into other areas of Canada's foreign policy in the last decade and a half—mistaking rhetoric and activity for results—has infected government's approach to foreign aid as well.

Canadians work hard for their money. They do not mind paying taxes for good purpose—and most would agree that alleviating poverty is such a purpose. But they do not appreciate having their money wasted on well-intentioned aid "activity" any more than anything else. It is time to put Canada's foreign aid practices to the test of the same criteria we have applied throughout this document, and which we believe Canadians want applied to every activity undertaken in their name: What is *effective*? Where should it be *focused*? What is *appropriate*? At the end of the day, will our assistance truly *empower* those we are trying to help?

As Figure 4.1 shows, *Official Development Assistance* (ODA) from OECD member countries totalled over $106 billion in 2005, a record high and an increase of 31% from the prior year. Canadian foreign aid has followed these global trends. In 2004-2005, the Government of Canada allocated $3.7 billion to international assistance, a 21% increase over the prior year. Since 1960, Canada has spent over $60 billion on foreign aid.

There have been many trends in development aid since its birth in the 1960s, but today the development community is almost exclusively focused on achieving the Millennium Development Goals (MDGs). The MDGs were designed to respond to the world's most pressing development challenges and have been adopted by 189 nations, including Canada. They consist of eight specific goals that are associated with quantitative targets to be achieved by 2015.

FIGURE 4.1: TRENDS IN ODA FROM CANADA AND OTHER OECD COUNTRIES (1960-2005)



Source: OECD DAC Statistics on-line, http://www.oecd.org/dataoecd/50/17/5037721.htm.

*DAC is the Development Assistance Committee of the OECD and represents those nations giving development aid.

TABLE 4.1: THE MILLENNIUM DEVELOPMENT GOALS (MDGS)

1. Eradicate extreme poverty and hunger	5. Improve maternal health
2. Achieve universal primary education	6. Combat HIV/AIDS, malaria and other diseases
3. Promote gender equality & empower women	7. Ensure environmental sustainability
4. Reduce child mortality	8. Develop a Global partnership for Development

Source: UN Millennium Project.

The funds needed to meet these goals are considerable. The UN Millennium Project estimates that $70-80 billion is needed *each year* at the start, in addition to current development spending, growing to $135 billion a year by 2015 (Sachs, 2005). This in turn requires that donor countries such as Canada approximately *double* the amount they give as a share of GNP.

This "big push" to increase development aid might be worthwhile—if it did indeed reduce poverty in the developing world.[2] But will it? The burgeoning empirical literature on the topic is largely inconclusive (Burnside and Dollar, 2000; Collier and Dollar, 2002; Easterly, 2003; Sachs, 2005; Rajan and Subramanian, 2005; Hansen and Tarp, 2000). Both advocates and critics of aid have fallen into the habit of cherry picking statistics and studies to support their pre-existing views, while ignoring contradictory evidence. Perhaps the most accurate statement is that over $100 *billion* is spent annually on aid initiatives which *cannot be proven* to be effective in relieving poverty.

Imagine if doctors spent $100 billion every year on treatment that was unproven to alleviate a patient's condition? This would be deemed

2 The White Man's Burden by Easterly (2006) provides an excellent overview of the history and failings of "big push" foreign aid initiatives. The End of Poverty by Sachs (2005) presents an opposite view, namely that "big push" aid efforts have failed simply because they have not been big enough.

completely unacceptable and vehemently challenged by the medical community as a tragic waste of valuable resources. Yet somehow the development community has met the same case with respect to poverty and social breakdown with tolerant apathy. This chapter analyses the current state of Canadian foreign aid and suggests more appropriate alternatives.

We examine the traditional forms of aid and discuss why they have largely been unsuccessful.

We suggest more promising alternatives, namely: (1) adopting a "Tools of Wealth Creation" approach to aid disbursements; (2) pursuing Public-Private Partnerships (PPPs) where they can be effective, for instance in building infrastructure and vaccine development; (3) involving the international NGO sector more fully; and (4) transforming the Canadian International Development Agency (CIDA) to become a competitive, private sector-like organization.

We analyze the significant difference between humanitarian aid and development aid, and suggest ways to reform emergency and post-conflict aid to be both effective and more consistent with Canada's other foreign policy goals.

And we conclude with a discussion of the fiscal and political implications of a new, better approach to Canadian foreign aid.

A TRADITION OF "AID" THAT DOESN'T HELP

Foreign aid generally falls into three main categories: Official Development Assistance (ODA), Official Assistance (OA) and Private Development Assistance (PDA).[3] Within the first category there are two classes of ODA: multilateral aid, channelled through international organizations

3 Official Assistance includes grants to countries that are no longer considered developing, such as Israel and Singapore. Private Development Assistance includes funds from non-governmental organizations, religious groups, foundations, and private corporations (Radelet, 2006).

such as the World Bank, IMF and UN Agencies, and bilateral aid, which donor countries give directly to recipients. It is the second of these—bilateral aid—that concerns us most. It also flows in two streams: ongoing development aid and humanitarian aid. The first, by and large, is meant to help its recipients escape chronic poverty; the second to alleviate acute suffering as a result of a temporary crisis or calamity. Figure 4.2 shows these distinctions diagrammatically. In this section we focus exclusively on the first of these streams: development aid. The following section will address humanitarian aid.

Development aid is intended to help individuals, communities, and countries escape conditions of chronic poverty and "develop" toward conditions of self-supporting prosperity. Many criticisms are made of it, but here we focus on eight of the most common.

Corruption is a heated topic in development aid. Its simplest form is what critics call "leakage": the large portion of aid money that fails to reach the impoverished and instead serves to entrench the ruling elite.

FIGURE 4.2: CLASSIFICATION OF FOREIGN AID

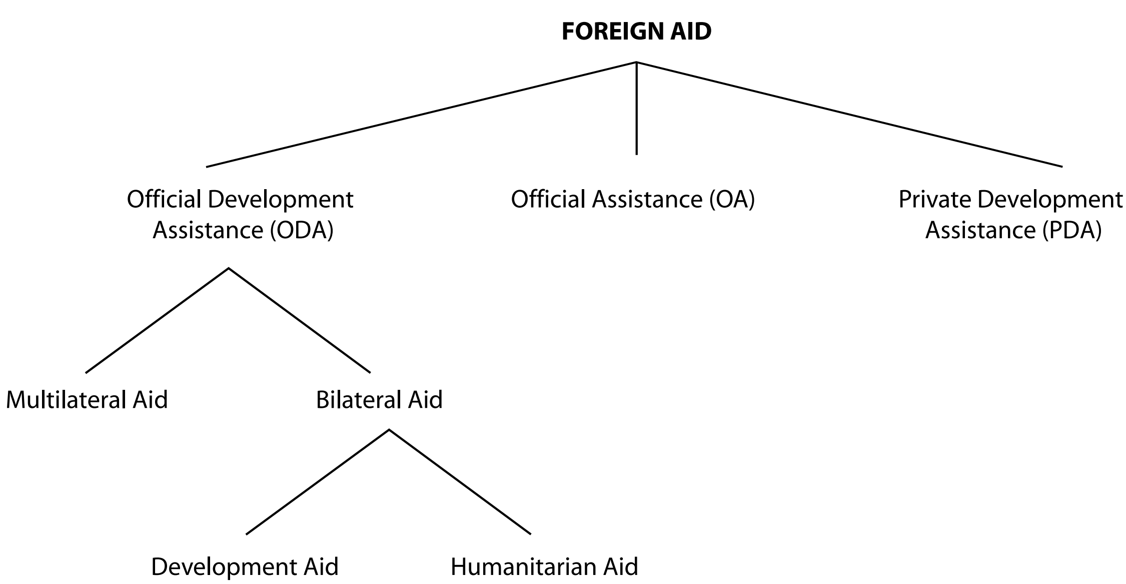


TABLE 4.2: PROBLEMS WITH TRADITIONAL DEVELOPMENT AID

Recipient Countries	Donor Countries
Corruption	Principal-Agent Problem
Absorptive Capacity	Conditionality
Aid Dependency	Lack of Donor Co-ordination
Fiscal Distortion	Aid Volatility and Sustainability

A far worse criticism is that aid money actually *causes* corruption in developing countries by increasing the resources available for elites and factions to fight over (Svensson, 2005).

What is called "aid absorption" is another problem. A lack of "absorptive capacity" means that money given in aid raises demand for a resource that is already in short supply. For example, consider a country in Africa with a high prevalence of HIV/AIDS that also has a shortage of trained doctors and nurses. If this country receives hundreds of millions of dollars in aid for the treatment and care of HIV patients it may be difficult, given the shortage of skilled health care professionals, for the country to absorb the aid and use it as it was intended. What often happens instead is that aid money is either not spent (the country simply banks it, building up its foreign exchange reserves) or it drives up the price of certain domestic goods or services relative to others, at least in the short term. That may in turn appreciate the real exchange rate for the country's currency, with damaging effects that ripple out across its economy.

In addition, many studies indicate that there are diminishing marginal returns to aid, and that an aid saturation point exists after which additional aid does more harm than good. Different studies suggest that this point is anywhere between 15% and 45% of GDP (Lensink and White, 2001). Or, to put it another way, beyond the saturation point, the more aid a country receives, the less it can absorb — what has been termed the "aid-institutions paradox" (Moss *et al.*, 2006).

TABLE 4.3: AID DEPENDENCY & FISCAL DISTORTION

Rank	Country	Aid as % of GPD		Country	Aid as % of Gov't Expenditure
1	Burundi	53%		Afghanistan	289%
2	Solomon Islands	47%		Nicaragua	137%
3	Timor-Leste	45%		Cambodia	107%
4	Liberia	42%		Ghana	73%
5	Afghanistan	37%		Uganda	71%
6	Sierra Leone	34%		El Salvador	69%
7	Madagascar	28%		Bhutan	65%
8	Guinea-Bissau	28%		Mongolia	63%
9	Eritrea	28%		Madagascar	45%
10	DRC	28%		Bolivia	32%
11	Nicaragua	27%		Bangladesh	29%
12	Rwanda	25%		Lesotho	20%
13	Malawi	25%		Jordan	16%
14	Kiribati	23%		Maldives	13%
15	Mozambique	21%		Namibia	11%
16	Zambia	20%		Cote d'Ivoire	11%
17	Ethiopia	19%		Pakistan	10%
18	Guyana	18%		Congo (Rep)	10%
19	Niger	18%			
20	Uganda	17%			
21	Mongolia	16%			
22	Gambia	16%			
23	Tanzania	15%			
24	Ghana	15%			
25	Cape Verde	15%			

Source: World Bank, 2005. Data on government expenditure is not available for all nations.

Aid dependency is the country-scale version of the "welfare trap" familiar to citizens of countries wealthy enough to afford poorly designed social assistance programs (see our Volume 2, *Caring for Canadians*). Entire nations may become reliant on perpetual aid flows. This corrodes the recipient country's sovereignty and may impede its development as well.

A further symptom of aid dependency is *fiscal distortion*, as the expectation of receiving large amounts of aid discourages national governments from developing a sustainable tax system. When some countries receive aid amounting to more than half of their entire economic activity (GNP), and a few governments actually receive more in aid than they spend, as Table 4.5 shows, the suspicion must be strong that both aid dependency and fiscal distortion are widespread pathologies.

We must emphasize that the blame for ineffective aid does not by any means lie exclusively with the countries that receive it. From a donor country perspective, a fundamental challenge is the *principal-agent problem*. This refers to the fact that the people providing aid money (taxpayers in developed countries) have no relationship with and receive no feedback from its intended beneficiaries (poor people in developing countries). This astonishing lack of accountability means that aid agencies have very little incentive to improve their effectiveness.

Conditionality is one of the most controversial aspects of foreign development aid. It is also called "tied aid," in which a country like Canada provides aid money to a developing country with the explicit condition that it be spent on goods and services from Canada. The obvious question this raises is: whom is the aid really meant for? The poor in the developed country? Or the Canadian provider of the goods and services? In their study "Who Gives Foreign Aid and Why?" Alesina and Dollar (2000) essentially answered that it is the second. They found that among OECD countries, internal political, economic, and strategic considerations drive the pattern of aid more than either humanitarian considerations or the likelihood of alleviating poverty.

Despite efforts to "untie" aid, about twenty cents of every dollar Canada donates continues to carry the condition that it be used to purchase Canadian goods or services. This damages Canada's humanitarian credentials. When the Development Assistance Committee (DAC) of the OECD conducted a peer review of Canada's aid practices in 2002, it specifically identified the high proportion of tied aid as a major shortcoming. In principle, there is nothing wrong with supporting Canadian interests abroad. The problem arises when this is done under the false pretence of providing development aid aimed at alleviating poverty.

Insufficient *donor co-ordination* and *aid volatility* further impede the effectiveness of aid. The first opens the door to duplication of effort among donor countries. The second can cause or exacerbate economic instability in recipient countries, especially those where aid constitutes a large share of GNP or government spending.

WHAT ARE THE ALTERNATIVES?

Given the widespread incidence of all of these problems, strong critics of development aid may be tempted to advocate abolishing it altogether. This would be both unrealistic and unwise. First of all, despite a wealth of literature on the problems with aid, there is also evidence that certain *focused* types of aid can indeed be effective in alleviating poverty. Clemens, Radelet, and Bhavnani (2004) broke aid down into different types, and found that assistance in developing infrastructure, in particular, does indeed have a robust positive relationship with economic growth.

Second, as we noted earlier, most developed countries engage in both bilateral and multilateral assistance, in the second case pooling their funds through major international institutions like the World Bank or United Nations. If Canada were to eliminate this second kind of aid, we would risk losing our place at the table in these institutions and with it an important voice in the global conversation. That would do nothing for, and could actively harm, Canada's interests in a rapidly globalizing world, particularly given the growing economic might of many developing countries.

Third, aid is an important arrow in Canada's foreign policy quiver. The so-called "3-D" policy that Canada's 2005 *International Policy Statement* outlined requires a strong development aid component to complement our efforts on the defence and diplomatic fronts (Canada, Foreign Affairs and International Trade, 2005). The 2006 *Federal Budget* outlined a plan to spend an additional $1.1 billion over two years on the armed forces and highlight the government's commitment to strengthening Canada's role in the world. *Effective* development aid has a role to play.

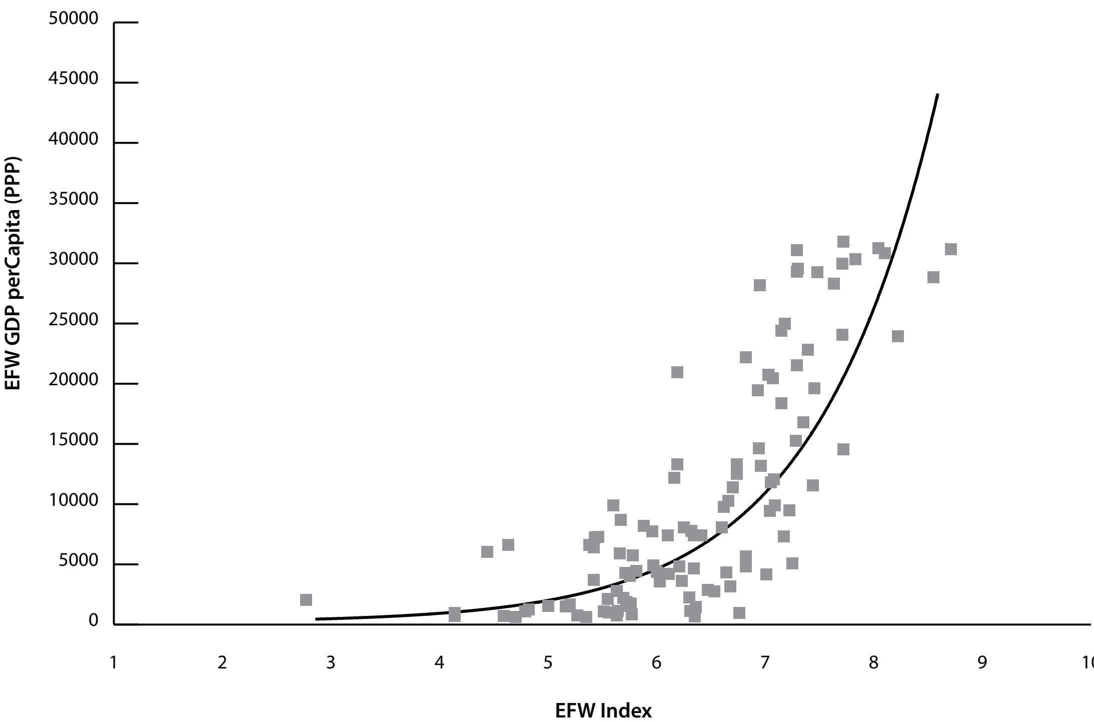
Finally, from a democratic perspective, by far the majority of Canadians support foreign aid programs. A survey by the Asia Pacific Foundation of Canada (2002) found that 71% of Canadians thought that foreign aid was either "very important" or "generally important." Among potential aid programs, poverty reduction elicited the strongest response; 64% of Canadians rated such initiatives "very important." Notably, this response was higher than for either promoting Canadian business interests abroad or promoting Canadian values. This suggests that there is broad public support for the idea of aid, although not necessarily for the ways governments have pursued it.

CANADIAN DEVELOPMENT AID THAT REALLY HELPS

If abolishing aid altogether is not the solution, then what is? We suggest that it can be found in refocusing Canada's aid effort on:

- Promoting economic freedom;
- Adopting what we will call the Tools of Wealth Creation approach to development aid;
- Channelling aid less exclusively through governments and more through Public-Private Partnerships (PPPs);
- Strengthening and relying more heavily on the international NGO sector in Canada;
- Transforming the Canadian International Development Agency (CIDA) into a private sector-like institution with particular attention to its accountability and efficiency, and the use of competition in its selection of projects and partners.

FIGURE 4.3: ECONOMIC FREEDOM INDEX AND GDP PER CAPITA



Source: dataset from Gwartney and Lawson, 2006.

PROMOTING ECONOMIC FREEDOM

As we have already said, the evidence showing that development aid has any effect in alleviating poverty or producing prosperity is inconclusive at best. However, there is robust empirical evidence to show that something else does: *economic freedom* has a strong, positive, and unequivocal impact on a people's prosperity. The annual report, *Economic Freedom of the World*, published by The Fraser Institute in conjunction with members of the Economic Freedom Network, ranks countries based on their level of economic freedom (Gwartney and Lawson, 2006). Figure 4.3 illustrates in dramatic form the consistent and positive relationship between the degree of economic freedom and a nation's prosperity as indicated by GDP per capita.

This strongly suggests that development aid that focuses on creating environments of economic freedom rather than environments of economic dependence is a far more appropriate way to offer Canada's help to the world's poor. This insight provides the analytical basis of the sustained prosperity approach to development aid that we discuss next.

ADOPTING A "TOOLS OF WEALTH CREATION" APPROACH TO DEVELOPMENT

Traditional development aid has largely looked to the redistribution of wealth from "haves" to "have-nots" as the way to alleviate poverty. This has yielded consistently disappointing results. The Tools of Wealth Creation (TWC) approach aims to better distribute the means to *create wealth*, rather than to redistribute wealth itself. The redistributive focus creates a fixed-pie mentality of permanent haves and have-nots in which poverty reduction is a matter of splitting the pie in a different way. The TWC alternative encourages developing countries to adopt the incentives that are essential to a well-functioning, productive economy while addressing the unacceptable levels of poverty present in the world today. It *empowers* recipient countries to begin to cure poverty, rather than merely treat its symptoms.

Too many academics, politicians, and (particularly) development practitioners are quick to dismiss the market economy as fundamentally flawed when in fact they may be reacting to a market economy that is simply insufficiently inclusive. We believe that it is not capitalism that has failed the world's poorer regions, but societies that have failed to provide their citizens with its powerful tools of wealth creation. This implies that rather than redistribute wealth from countries where those tools are put to use, aid should be designed to give people in developing countries access to the same tools that will allow them to reduce their own poverty.

To accomplish this we focus on five fundamental tools of wealth creation: (1) property rights, (2) access to capital, (3) development of human capital, (4) access to technology and information, and (5) access to trade markets.

PROPERTY RIGHTS

A lack of property rights lies at the heart of many development problems. In his book, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (2000), renowned Peruvian economist Hernando de Soto argues that while people in developing countries often have assets, they do not have the legal framework to use these assets as financial collateral and thereby turn them into productive capital. De Soto estimates that there is over $1.2 *trillion* of "dead capital" in Latin America alone. This is more than *10 times* the total amount of foreign aid given annually around the entire world, an astonishing figure.

Development aid should therefore focus on creating an environment in which poor people can activate their own capital, rather than simply call for more aid money to be pumped into countries whose assets are inaccessible for lack of social, legal, and financial infrastructure. As a beginning, Canada could support initiatives such as the Urban Real Estate Rights Project in Peru (IPE, 2001) and help foster similar programs in other countries where none yet exist.

ACCESS TO CAPITAL

Without access to capital the other tools of wealth creation have little to work on. Where it is lacking, micro-credit is an obvious solution. Bangladeshi economist Muhammad Yunus has demonstrated its effectiveness through his Grameen Bank, winning the 2006 Nobel Peace Prize in recognition. His micro-lending bank's success shows that capitalism can indeed be a powerful weapon in the fight against poverty.

However, the role of development aid in supporting micro-credit is tricky. Successful micro-credit institutions such as African Bank in South Africa, Bank Rakyat in Indonesia, and Yunus's own Grameen Bank are all *for-profit* enterprises, albeit with an underlying social purpose. *Not-for-profit* NGOs and aid organizations, lacking expertise, risk-management tools, and the local knowledge required to execute micro-credit properly, risk entering markets with mis-priced products that drive down returns and diminish the very effectiveness they are trying to take advantage of.

At the Global Micro-credit Summit in Halifax in November, 2006, the Canadian government announced $40 million in funds to be spent on micro-credit programs administered though Oxfam Québec, Développement International Desjardins, and the Canadian Co-operative Association. While the intent is laudable, these are inappropriate channels; the first two organizations in particular do not understand the profit motive that is at the core of successful micro-lending. As a better approach, we recommend that aid agencies fund existing for-profit institutions and focus their efforts on creating environments that encourage their establishment and success.

A few Canadian organizations are already pursing some aspects of this approach. One is Calmeadow, a charity that provides affordable, responsive, and sustainable financial services in underdeveloped regions of the world. Calmeadow has two regional micro-finance funds, ProFund Internacional (Latin America) and AfriCap Microfinance Fund (Africa), both of which have been very successful. Another example that deserves mention is CARE Enterprise Partners (CEP), a part of CARE Canada that operates as a social venture capital firm, incubating model businesses that generate both economic and social value in low-income communities.[4] Like a private sector venture capital firm, CEP has an Investment Committee and issues quarterly reports.

Opportunity International (OI) is also a good example of successful microfinance. OI was founded in the early 1970s in the United States with Canadian Ross Clemenger giving out the first official Opportunity International loan to a client in Colombia in 1976. Since then the organization has grown remarkably with 5 Support Partners, of which OI Canada is one, serving 40 Implementing Partners in 25 countries. OI Canada was founded in 1997 by David Stiller who was frustrated with the "inability of relief work to make poor people any less poor." As of 2005, 700,000

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4 See CARE Canada website at <http://www.care.ca/CEP/> for more information.

TABLE 4.4: INDICATORS OF HUMAN CAPITAL

HDI Rank	Country	Life Expectancy	School Enrolment Ratio
1	Norway	80	100
2	Iceland	81	96
3	Australia	81	N/A
4	Ireland	78	99
5	Sweden	80	97
6	Canada	80	93
AVERAGE TOP 6		**80**	**97**
1	Central African Republic	39	30
2	Guinea-Bissau	45	37
3	Burkina Faso	48	26
4	Mali	48	35
5	Sierra Leone	41	65
6	Niger	45	22
AVERAGE BOTTOM 6		**44**	**36**

Source: United Nations Development Programme, 2006. School enrolment is all levels.

families have OI loans and over 850,000 jobs have been created or sustained by OI financing.[5]

Besides providing access to micro-credit, development aid can provide capital to larger entrepreneurs as well. To its credit, Canada is already on the right track in this respect, having recently launched the Canadian Investment Fund for Africa, a $250 million fund dedicated to making private equity investments in businesses throughout Africa. The fund, managed jointly by well-respected financial firms Cordiant and Actis, comprises a $100 million anchor investment from the Government of Canada with the balance being raised through third parties. Its objective

5 Source for figures is Opportunity International, Canada, 2005; note that these figures are not for OI Canada specifically but for all OI members.

is to spur economic growth by providing risk capital for commercially successful private sector businesses.[6]

EXPANDING HUMAN CAPITAL

Human capital is as essential as financial capital to creating wealth. We define human capital as the combination of educational attainment, health status, and work experience. Table 4.4 compares the levels of human capital in the top six countries and bottom six countries ranked in the Human Development Index (HDI), using life expectancy as a proxy for both health and work experience, and school enrolment as a measure of educational attainment.

It is estimated that human capital constitutes about 80% of the wealth of developed countries (Becker, 1998). In that case it is not hard to imagine the challenge facing the bottom six countries, where school enrolment is one-third of what it is in the top six countries and life expectancy roughly half.

What can development aid do to encourage the accumulation of human capital? Currently, most development aid to education is focused on increasing school *enrolment*.

The Millennium Development Goal for education is to ensure that all children can complete primary school by 2015. UNESCO's Education For All (EFA) campaign has similar quantitative goals, as does CIDA's Action Plan on Basic Education. In pursuit of the last, CIDA quadrupled its investments in basic education between 2000 and 2005.

Missing from many of these campaigns is a recognition that in many developing countries the *quality* of education is so low that simply increasing enrolment does not actually have much impact on the real level of human capital (see Pritchett, 2001 for examples and analysis). Since so many other donors are focusing on quantitative enrolment, Canada's development aid could distinguish itself by working aggressively to improve the *quality* of education at all levels.

There are two effective ways in which Canadian aid could improve

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6 For more information, see <http://www.cifafund.ca/en/index.html>.

$100 LAP TOP

The development of the $100 Lap Top is a cost effective way of promoting development and bridging the digital divide in poor countries, but it also provides an interesting case study of how effective collaboration between non-profits, governments, business, and academia can act to alleviate poverty in a way that is consistent with the TWC approach.

The $100 Lap Top is the brain child of Nicholas Negroponte, who launched the project at the Massachusetts Institute of Technology (MIT) Media Lab in 2004. Five well known corporations, Google, Advanced Micro Devices, Red Hat, News Corp., and Brightstar, have each provided expertise and $2 million to fund an NGO, One Laptop Per Child, set up to oversee the project.

Local governments in Brazil, Argentina, Uruguay, Nigeria, Libya, Pakistan, and Thailand have already signed up to buy the lap tops. Even developed country governments in countries such as the US and Australia have expressed interest is using the $100 Lap Top for remote education purposes.

real educational outcomes in developing countires. The first is to aggressively fund teacher training for primary and secondary schools. This is a particularly pressing problem in some countries in Africa where the number of qualified teachers is actually *falling* due to high HIV/AIDS-related mortality. Another is to focus on post-secondary education geared specifically towards entrepreneurship and skills. This area of opportunity is often overlooked by development agencies like CIDA that tend to be preoccupied with basic education. Making Cents International, <http://www.makingcents.com/>, a for-profit social enterprise started by Canadian Fiona Macaulay, provides training and technology curriculum for micro-entrepreneurs in approximately 40 developing countries. USAID and other development agencies have made good use of these products; CIDA funds would be well spent doing the same. Such initiatives also reinforce micro-credit lending, since equipping micro-entrepreneurs with funds but no skills is a job half done.

Effectively raising the quality—not just the quantity—of education also raises human capital in another way, through its spill-over effect on health. Studies have shown that educated mothers on average raise healthier children; educated youths in countries with a high prevalence of HIV/AIDS are more likely to use condoms; and educated people generally invest more in their own health rather than relying on (often inadequate) government health agencies (Mellington and Cameron, 1999; Gokhale *et al*., 2004).

ACCESS TO TECHNOLOGY AND INFORMATION

Technology and access to information are also fundamental tools of wealth creation. The good news is that in this area many developing countries are in a position to "leap-frog" older technologies still used in the developed world, and go straight to newer technologies, providing a massive boost to their prospects for productivity and growth. A good example is mobile phones. Grameen Phone, in collaboration with the Grameen Bank, has launched a Village Phone program that aims to place one mobile phone in every village in Bangladesh, providing a public call centre in each. Started less than a decade ago, it is a profitable company with 8.5 million subscribers. Other examples include the "$100 Lap-Top" project started by the technology lab at Massachusetts Institute of Technology (MIT), and Manobi, a mobile and internet value-added service provider operating in the agri-business sector in Senegal.[7]

These examples show that providing access to technology and information can indeed help to reduce poverty if they are low-cost and scalable. Development aid should therefore encourage private-sector initiatives aimed at increasing access to technology and information in developing countries.

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7 For more examples of technology empowering poverty reduction, see the CGAP: IT Innovation Series at <http://www.cgap.org>.

ACCESS TO MARKETS

Approximately 70% of poor people in developing countries live in rural areas. These people are overwhelmingly farmers and herders. Access to trade markets where they can sell the products of their agriculture is therefore critical to improving their economic prospects. Today, developed countries spend approximately $280 billion a year to support their agricultural industries – almost triple what they spend in development aid. As a result, over 3 billion people in developing countries live on less than the $2 a day that the average European cow receives in government subsidies (Hassett and Shapiro, 2003).

Clearly this is immoral, uneconomic, and unsustainable, yet developed countries have stubbornly resisted change. Indeed, as already mentioned, the EU's Common Agricultural Policy and the US government's agro-subsidies proved a major barrier to reaching agreement in the now defunct Doha Round of trade talks. Canada's agricultural subsidies are on about the same level as the United States', though considerably lower than those of the European Union. The changes we have recommended to Canada's agricultural program will effectively end large subsidies – mostly borne by Canadian consumers – and help open Canadian markets to poor nations.

As we highlighted in Volume I of *A Canada Strong and Free*, the former Canadian government (compromised by its desire to appease anti-American and anti-globalization interest groups) withheld support for global free trade as an effective way to help poorer nations. Canada's new government has an opportunity to take the initiative and work with other nations in both the G8 and the G20 to resuscitate the Doha talks. If this proves impossible, Canada should judiciously pursue bilateral trade agreements with major trading blocks in developing regions. However, in doing this, we should bear in mind that such agreements are not as desirable as reaching a global agreement under the WTO umbrella or as crucial as Canada's interest in trade with the United States. Moreover, as we have noted, most of these regional agreements face serious hurdles and should not be allowed to interfere with closer regulatory and trade integration with the United States. Thus, while we believe Canada should explore regional agreements, we also believe this should be balanced against the larger interests of a deepening global free trade and our US trade relationship.

SUMMARY OF THE TOOLS OF WEALTH CREATION APPROACH

Table 4.5 provides a summary of the Tools of Wealth Creation. As novel as these may appear in comparison with traditional aid, we believe they are demonstrably more likely to be effective at reducing poverty and more appropriately delivering help to the less fortunate (as distinct from directing "aid" to Canadian providers of goods and services), and are fully ready to be deployed in the field.

Indeed, many experts in development aid philosophically support this approach. John Watson, the President and Chief Executive Officer of CARE Canada, in a recent speech, has suggested many of the same notions (Watson, 2005). The Tools of Wealth Creation are, moreover, versatile. Their usefulness is not limited to other countries where poverty rules. They can be just as effective where poverty persists *within* Canada—in aboriginal communities, for example.

PUBLIC-PRIVATE PARTNERSHIPS (PPPS)

Public-private partnerships or "PPPs," have found a growing role in both developed and developing countries. They aim to attract private funding and private-sector skills to what were previously considered public-sector functions.

In Canada, well-known PPPs include the Bay of Fundy Ferry Services, Nova Scotia's Highway 104 (Cobequid Pass), New Brunswick's Fredericton-Moncton Highway, and water treatment projects in Dartmouth, Moncton, and Edmonton. Other Canadian PPPs have initiated projects as diverse as student housing and medical centers. A survey by the Canadian Council for Public-Private Partnerships revealed that Canadians are increasingly comfortable employing PPPs to construct, operate, and/or finance such traditionally public assets as hospitals, hospital services, roads, water treatment facilities, sewage treatment facilities, recreation complexes, public transit, and electricity grids (CCPPP, 2004).

As Canada and other developed countries embrace PPPs worth billions of dollars, more are being launched every year in developing countries as well.[8] While not by any means a panacea for every development problem, in certain areas PPPs can accomplish ends that otherwise would not be met due to the nature and distribution of the risks they entail. Below we consider two such areas where PPPs are appropriate and Canadian aid and expertise should get involved: infrastructure and vaccine development.

Infrastructure

Infrastructure investments have unique risks: high fixed and up front costs and usually strict regulatory environments. In developing countries these are often further complicated by political, financial, and operational uncertainties. PPPs distribute these risks among a number of parties. In addition to spreading risk, they can create a win-win-win-win situation for private companies (foreign and domestic), local governments, aid donors, and the people of the recipient country.

As Table 4.6 shows, the dollar value of infrastructure projects in developing countries involving PPPs almost doubled between 1995 and 2005—reaching nearly US$96 billion. However, as Figure 4.4 reveals, these were geographically concentrated in Eastern Europe, Asia, and Latin America and sectorally concentrated in telecommunications.

CIDA pays lip service to the potential of infrastructure PPPs, but it is difficult to find evidence of its involvement with any actual PPP projects. Canada, for example, is one of 14 donors to the Public-Private Infrastructure Advisory Facility (PPIAF), an agency providing technical assistance started in 1999. But this merely supplies technical experts who write reports on what should be done with PPPs, instead of actually doing it. Similarly, CIDA funds courses in some countries on how to make PPPs work, but does not embark on any itself (IP3, 2007; PPIAF, 2007). According to the OECD aid

8 See Wettenhall, 2003 for a good overview of PPPs in the United Kingdom, Australia, Canada, and other OECD countries.

TABLE 4.5: A TOOLS OF WEALTH CREATION APPROACH TO DEVELOPMENT

Underlying Cause of Poverty	Tool of Wealth Creation	Successful Example	Resources
Lack of legal inclusion in the market system	Property rights	Urban Real Estate Rights Project (Peru)	*The Mystery of Capital,* Hernando de Soto, 2000.
Lack of access to capital	Micro-credit	Calmeadow African Bank Bank Rakyat Grameen Bank	*Banker to the Poor: Micro-Lending and the Battle Against World Poverty,* Yunus and Jolis, 1999. *The Micro-Finance Revolution: Sustainable Finance for the Poor,* Marguerite Robinson, 2001.
Undeveloped human capital	Education Health Work experience Entrepreneurship	Making Cents BOP entrepreneurs	*The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, C.K. Prahalad, 2006.
Lack of access to information & technology	Scalable, low cost technological distribution	$100 Lap Top Grameen Phone	*The World is Flat*, Thomas Friedman, 2005.
Lack of access to trade and markets	Free trade	US *African Growth and Opportunity Act* (2000)	*Economic Justice in an Unfair World: Toward a Level Playing Field*, Ethan Kapstien, 2006. *Trade Policy and Global Poverty*, William Cline, 2004. *In Defense of Globalization*, Jagdish Bhagwati, 2004.

database, in 2004 Canada spent $20 million on PPPs—less than 0.8% of our total aid budget that year.

CIDA's reticence is not for lack of successful PPP models in developing countries. One such example is the construction of the N4 Toll Road from South Africa to Mozambique. This was initiated in 1996 when both post-civil war Mozambique and post-apartheid South Africa wanted to expand their regional trade. More trade demanded better transportation and neither government had the finances to build the required road. The financial and operational risks of such a project were, meanwhile, too high for a private company, multilateral agency, or single aid donor to undertake alone. As a solution, the two countries formed a PPP, financed by equity and debt from construction companies, the South Africa Infrastructure Fund, and private banks.[9] Now complete, the road has improved truck travel between the two countries, expanded trade, encouraged a local tourist industry, and brought follow-on investments (both public and private) in Mozambique.[10]

The main ingredients for a successful PPP include political support, an enabling (corruption-free) regulatory environment, technical expertise, and financing. Rather than host conferences and write reports about PPPs, CIDA should focus on financing actual projects and encourage Canadian companies to lend their expertise and equity to them.

HEALTH CARE & VACCINE DEVELOPMENT

Another area where PPPs hold potential is health care, particularly in vaccine development. Developing vaccines entails many of the same risks as building infrastructure: the high up-front costs of R&D, and the market risk of producing drugs for diseases of poverty. Given the high level of uncertainty attached to both the investment in and return from these

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9 In other PPPs, such as the rehabilitation of the Mozambique Port, aid agencies played a key role in providing financing.

10 See Farlam, 2006 for a review of six other successful PPP case studies in Africa. The International Project Finance Association (IPFA) has other examples of successful PPPs in Asia, Latin America, and Europe.

drugs, diseases such as malaria and TB continue to kill millions of people in developing countries every year.

One solution is for donor governments to use PPPs to balance out the risk and reward profile of developing vaccines for these so-called "neglected diseases." One highly effective contribution may take the form of a commitment to purchase a certain dollar value of a vaccine, if and when a pharmaceutical company can develop it.[11] CIDA need not even establish projects along these lines from scratch; it could easily become an active partner in one or more of a number of PPPs already under way. These include the Global Alliance for Vaccines Immunization, the International AIDS Vaccine Initiative, the Medicines for Malaria Venture, and the Global Alliance for Tuberculosis Drug Development.

In sum, PPPs are not perfect as a development tool; they require structural, political, and financial co-ordination, as well as considerable private sector expertise, to be worthwhile. They also require a corruption-free administrative environment. However, successful PPPs have produced winning situations for local governments, donors, private companies, and local citizens. Their model should be more widely adopted and supported by Canadian development aid.

TRANSFORMING CIDA

Transforming CIDA into an agency operated on lines closer to the private sector, that is to say efficiently and with a focus on product, entails a number of steps. We will focus on seven key areas:

- Achieving accountability to stakeholders;
- Improving operational efficiency;

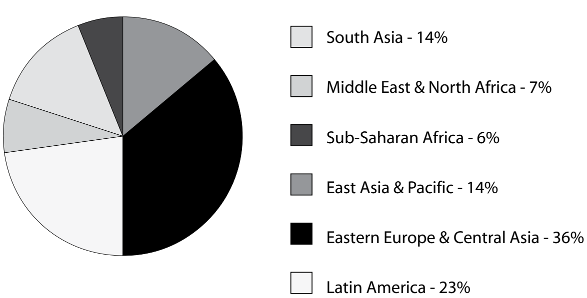
11 This idea and others are developed in detail in Kremer and Glennerster, 2004.

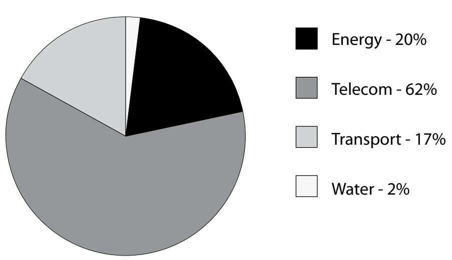
TABLE 4.6: INFRASTRUCTURE PROJECTS WITH PRIVATE PARTICIPATION (DEVELOPING COUNTRIES)

($US billions)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
East Asia and Pacific	17.8	27.3	36.2	10.1	12.2	18.2	12.5	9.6	13.3	13.1	13.6
Europe and Central Asia	9.5	10.7	14.6	12.2	11.3	25.3	14.1	17.2	11.8	15.1	34.4
Latin America	17.1	25.8	49.0	69.3	37.9	39.0	34.6	20.3	16.2	19.8	22.1
Middle East and North Africa	0.1	0.1	5.1	3.4	2.9	4.1	4.3	1.6	2.0	7.6	6.7
South Asia	3.8	5.7	6.2	2.3	4.6	3.5	4.7	6.0	3.9	11.2	13.6
Sub-Saharan Africa	1.7	1.7	3.0	2.2	2.8	2.1	4.0	3.3	5.9	4.0	5.4
TOTAL	**49.1**	**71.3**	**114.1**	**99.5**	**71.7**	**92.2**	**74.2**	**58.0**	**53.1**	**70.8**	**95.8**

Source: World Bank and PPIAF, PPI Project database. http://ppi.worldbank.org/ and http://www.ppiaf.org/.

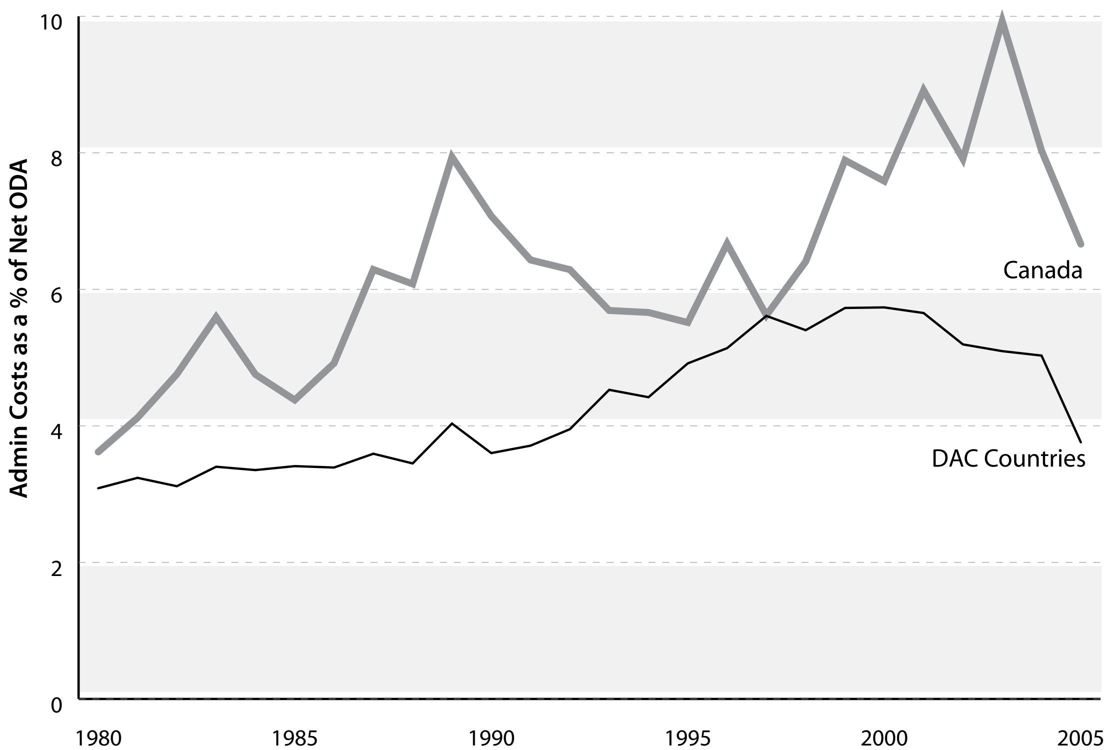
FIGURE 4.4: GEOGRAPHIC AND SECTORAL DISTRIBUTION OF DEVELOPING COUNTRY PPPS (2005)





Source: World Bank and PPIAF, PPI Project database. http://ppi.worldbank.org/ and http://www.ppiaf.org/.

FIGURE 4.5: ADMINISTRATIVE COSTS AS A % OF ODA



Source: OECD Online ODA database, http://www.oecd.org/dataoecd/50/17/5037721.htm.

- Replacing a "made-in-Ottawa" (manager-led) approach to aid with an "on-the-ground" (client-focused) approach;
- Adopting a "90-10" rule for choosing recipient countries;
- Buying-in research rather than duplicating existing expertise;
- Creating a marketplace for aid providers; and
- Demanding execution, leadership, and sound management.

ACHIEVING ACCOUNTABILITY TO STAKEHOLDERS

CIDA's operations are based on what the agency calls a "Business Function Model." Any similarity to actual business largely ends with the name. One "business function" is to "report agency results to stakeholders, including program and project recipients, CIDA management, central agencies, Parliament, and the Canadian public" (CIDA, 2006). While it is perhaps commendable that the taxpayer is at least acknowledged on the list of stakeholders, the average member of the public would most likely be surprised to discover that CIDA spends almost $25 million a year "engaging Canadians" to gain their support for agency programs. CIDA also spends more than ten times as much on the Canadian Partnership Branch, responsible for managing its overall relationship with Canadian private and volunteer-sector partners (CIDA, 2005). While these functions may indeed play a role in stakeholder communications, their combined cost ($317 million) is difficult to explain.

Accountability to Parliament is not much better. CIDA delivers a *Departmental Performance Report* once a year. In it, the agency fills out its own "report card"—rather like asking a student to grade her own exam. Not surprisingly, of the 31 categories in the most recent report card, on only two items did CIDA give itself a grade of "not yet fully met expectations." On the other 29, it gave itself grades of "exceeded" or "successfully met" expectations. To address these shortcomings, we suggest that an independent third party be given responsibility for completing an annual CIDA "report card" to Parliament and the Canadian public.

IMPROVING OPERATIONAL EFFICIENCY

Figure 4.5 shows that since 1990, administrative costs as a percentage of total Canadian official development aid have consistently been higher than in other OECD countries. In 2005, administrative costs, at 6% of ODA, were almost double those of our peers. On an aid budget of $3.7 billion, this means we spent over $100 million on superfluous administrative costs in that year alone. This level of administrative waste is unacceptable. CIDA should make it a priority to bring its administrative cost ratio into line with the OECD-DAC average within two years.

One reason why CIDA's administrative costs are so high may be the geographical sprawl of its programs. This something-for-everybody approach carries a further penalty: it means that Canada's aid achieves a critical mass almost nowhere (OECD, 2002). While the agency appears to be trying to pull its efforts together to some small extent, it continues to boast that "Canadian aid through all channels (including multilateral and partnership) reaches virtually every one of the approximately 120 developing countries in the world." Even excluding multilateral assistance channels, CIDA engages in at least some bilateral programming in approximately 100 countries and maintains field offices in 60 (CIDA, 2005). Some of these are middle-income countries. Why is a relatively small country like Canada, with a limited tax base and resources, trying to help people in every developing country on the planet?

Canada's aid also often goes to the same countries that other large donors help, with the result that our contribution as a proportion of the total aid those countries receive is in some cases almost negligible. For example, as Table 4.7 shows, CIDA's nine "focus" countries in 2004-2005 (Bangladesh, Bolivia, Honduras, Mali, Ghana, Ethiopia, Mozambique, Senegal, and Tanzania) received 24% of Canada's total bilateral aid; but in only one of these, Mali, was Canada's share of the total aid the country received over 5%. On average in the nine "focus" countries, Canada's contribution is approximately 2% of all the aid the country receives. Can we claim to be "focused" on Bolivia, Senegal, and Honduras when we provide only 1% of the total aid these countries receive?

CIDA's aid "focus" must more seriously reflect the meaning of the word. As a guide, we suggest a threshold requiring that Canadian aid be at least 10% of the total in a "focus" country and at least 5% in non-focus Development Partner countries.[12] This degree of concentration compares

12 We also suggest that a new category of partner be added, conflict-prone countries, whose inclusion and disbursement guidelines are based on different criteria. This recommendation is discussed in more detail below.

TABLE 4.7: CANADA'S AID CONTRIBUTION IN FOCUS COUNTRIES

Country	Focus Country Allocation		Country's Total ODA	Canadian Aid as a % of Total Aid
	As a % of Total Canadian Bilateral Aid	$ Millions		
Bangladesh	4.4	51	1,765	3%
Bolivia	0.7	8	963	1%
Honduras	0.6	7	807	1%
Mali	3.5	40	713	6%
Ghana	3.6	42	1,706	2%
Ethiopia	3.3	38	2,291	2%
Mozambique	3.7	43	1,544	3%
Senegal	1.5	17	1,322	1%
Tanzania	2.9	33	2,194	2%
Total/Average	**24.2**	**279**	**13,305**	**2%**

Sources: Focus Country aid allocation from CIDA, 2005. Total ODA is from the World Development Indicators (World Bank, 2005) and uses Total ODA in 2004 only, as 2005 is not yet available. Total ODA is reported in $US so the average 2004/2005 $US exchange rate of 0.80 was used for conversion purposes.

to the levels other OECD countries achieve. This threshold requirement would leave CIDA with three choices: (1) reduce the total number of countries it is active in; or (2) shift some countries from "focus" to "development partner" status to direct Canadian aid to where it can actually have an impact rather than to countries already overrun with donors trying to make a difference; or (3) a combination of (1) and (2). These changes would go a long way toward making CIDA a more effective, respected, and cost-efficient aid agency.

The final opportunity for streamlining costs that deserves mention lies within Canada. In addition to its head office in Ottawa, CIDA has three main regional offices in Moncton, Edmonton, and Vancouver and supports six more satellite offices in Calgary, Charlottetown, Halifax, Saskatoon, St. John's, and Winnipeg. CIDA claims these offices provide "convenient direct access" (although for whom is a tantalizing question, considering that its nominal clients are all outside of Canada); but this access comes at an administrative cost that could be put to better use.

Replacing a "made-in-Ottawa" with an "on-the-ground" approach

Currently about 80% of CIDA's 1,500 staff members are located in Ottawa (Goldfarb and Tapp, 2006). CIDA has approximately 60 field offices, which means that on average there are only five people on the ground in each of the countries where the agency operates. This violates a main tenet of good development practice, namely that effectiveness is a function of country-specific knowledge and on-the-ground feedback.

In its *Policy Statement on Strengthening Aid Effectiveness* CIDA itself recognized this shortcoming, but addressed it with a vague promise to "enhance its field presence in countries selected for enhanced partnerships so that it can effectively deliver new program approaches" (CIDA, 2002). We urge a more assertive commitment to deploy 30% of its staff into the field by 2010 and 40% by 2015. This need not compromise the goal of streamlining CIDA's operational costs. Both the UK and Denmark have approximately half their staff in the field, and both have administrative cost ratios lower than Canada's (Goldfarb and Tapp, 2006).

Adopting a "90-10" rule

Currently, CIDA gives aid to both low and middle-income countries, albeit with a bias toward the former. We suggest it adopt instead a "90-10" rule similar to that in the UK (Barder, 2005), which directs 90% of development aid to low income countries. We suggest an additional rule: that if a country is an aid donor itself, it not receive ongoing development aid from Canada. This applies today to China and will soon apply to countries like India and Brazil. In November 2006, China agreed to double its aid to Africa by 2009. Why is Canadian tax-payer money being used to give development aid to

China,[13] when China turns around and gives money to Africa? If a country is prosperous enough to be a donor, it should not expect support itself.

UTILIZING CANADIAN ACADEMIC EXPERTISE AND RESEARCH CAPABILITIES

As with any endeavour, ongoing research into the process of development and effective means to assist it is desirable to guide program managers and direct innovation. Some have recommended that CIDA invest more in this kind of research (Goldfarb and Tapp, 2006). But creating a large in-house research capability is expensive. In CIDA's case, it is also likely to be duplicative.

A great deal of pertinent research is already available to CIDA. For example, in 1996 James Wolfensohn, then President of the World Bank, launched a "knowledge bank" that has spent and continues to spend millions of dollars on research and knowledge dissemination in various fields of development.[14] Among bilateral agencies, the UK development agency has a separate branch called the Central Research Department and USAID has a massive library of research and a specific *Knowledge for Development* website (USAID, 2006). UN agencies such as UNAIDS, the WHO, the Food and Agricultural Organization, the World Food program, and the UN Development Program, to name but a few, all have research functions. Large multi-national NGOs such as Oxfam, CARE, and World Vision also have their own research capabilities and there are a number of well regarded

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13 While CIDA does not give official bilateral aid to China, the agency still supports a number of governance, legal, and technical co-operation projects in China. CIDA's China Country Development Programming Framework (CDPF) and a list of projects can be found at <http://www.acdi-cida.gc.ca/CIDAWEB/acdicida.nsf/En/JUD-31112026-M6U>. See York, 2006 for a critique of CIDA's continued aid to China.

14 A separate arm of the World Bank is responsible for the execution and coordination of this strategy. See Laporte, 2004 for more information.

What Do Outsiders Think of Canada's Role in the World?

Prior to becoming President of CIDA, Robert Greenhill researched and published a comprehensive report titled *Making a Difference? External Views on Canada's International Impact* (Greenhill, 2005).

Respondents collaborated under Chatham House Rules, in other words, under the condition of anonymity. Some of their quotes, listed below, provide a sobering reflection on Canada's impact on the world, as seen by non-Canadians.

"*Where has Canada made a significant difference over the past 15 years? Nothing comes to mind.*"

"*Canada will continue to be irrelevant unless there is a political will to change. Today it adopts high moral standards from a safe distance.*"

"*In the '70s and '80s, Canada belonged to like-minded countries making a difference in development. Canada was truly one of the leaders. Canada has totally lost that in the past 15 years.*"

"*The current trends are against Canada's influence.*"

A reformed CIDA could be an effective tool in both alleviating poverty and improving the sub-standard perception of Canadian contributions on the world stage.

development think-tanks such as the Centre for Global Development that provide excellent research on aid topics. In Canada, the publicly funded International Development Research Centre already provides research on four major development themes and has six research offices in developing regions.[15] Given the massive stream of research already available, for CIDA to invest heavily in in-house capabilities seems inefficient at best and wasteful at worst. Instead, in the spirit of enhancing its private-sector orientation, we suggest that CIDA form research "joint ventures" with Canadian institutions and companies noted for their existing expertise in development.

15 These themes include: Environment and N atural Resource Management, Information and Communication Technologies for Development, Innovation Policy and Science, and Social and Economic Policy. Regional offices are in Kenya, Senegal, Egypt, India, Singapore, and Uruguay. See International Development Research Centre, 2007 for more detail.

MAKING A MARKET FOR AID PROJECTS

Nothing inspires efficiency and innovation better than lively competition. CIDA has an opportunity to exploit the power of competition by developing a marketplace for aid delivery. Under this arrangement, both CIDA and private NGOs could tender for project funding; the organization in the best position to fulfill the mandate would receive the assignment and the funds.

This market for aid providers would have a number of benefits:

- It would remove CIDA's monopoly in Canadian aid and introduce invigorating competition to the domestic development community;

- It would encourage specialization. Currently, CIDA has hundreds of projects in over 100 countries, in four main areas with two "cross cutting themes." This scope does not allow for specialization, either by geography or by program. A market approach encourages NGOs to develop a particular level of expertise in certain countries or programs in order to better compete for project funding;

- An aid-project marketplace adheres to the principle of "subsidiarity," which leaves to senior levels of government only those functions which cannot be done more effectively and efficiently by smaller and lower levels of organization.

New information technologies would make such a marketplace surprisingly simple to create. CIDA already has a Project Browser Database with over 600 projects listed. The only innovations needed would be to make this proactive (so requests for project proposals are on the site, rather than projects to which funds have already been committed) and to add an element of interactivity, including a bidding process.[16] Contracts would have to set clear performance criteria, with penalties for failure to meet benchmarks, and would require outside auditing, to achieve the efficiency of the private sector.

DEMANDING EXECUTION, LEADERSHIP, AND SOUND MANAGEMENT AT CIDA

To conclude, it is important to emphasize that the foregoing reforms will require political will and organizational leadership to achieve. Three parties must take responsibility for their execution: the federal government, the President of CIDA, and the organization's own staff.

For the government's part, it must provide a political environment in which reform is a priority. Foreign aid is one of the fastest growing line items in the Canadian budget. In its April 2006 Throne Speech, Prime Minister Harper's government promised "a more effective use of Canadian aid dollars." This commitment must be translated into action and not be allowed to slip down the priority list.

A recent change at the top provides grounds for optimism that CIDA's senior leadership will support reform. In May 2005, Robert Greenhill was appointed President of CIDA. Greenhill, unlike many in the development community who have no private sector experience, was formerly the President and COO of Bombardier, and began his career with McKinsey and Company. Before joining CIDA, he authored a report entitled *Making a Difference? External Views on Canada's International Impact*, that outlined Canada's current lack of influence in the world and made dramatic suggestions for improvement. Given this background, outlook, and ability to provide constructive criticism, Mr. Greenhill is well positioned to lead a reformed CIDA. However, he must be able to use his leadership

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16 The World Bank recently started something similar with its Development Marketplace (DM) initiative. DM is not competitive; rather it requires collaboration between individuals with project ideas and organizations, but it could be used as a template for developing an aid marketplace in the Canadian context.

skills to transform CIDA, and not be hamstrung by barriers to execution erected by either politicians or bureaucrats.

The third group critical to executing reform is CIDA's own managers and staff. The changes we recommend are largely structural, but even the best structure will be ineffective without qualified, committed people working within the organization. Unfortunately, human resources at Canada's development agency currently suffer from a negative chicken-and-egg problem: CIDA is a sub-standard institution, so it has difficulty attracting and retaining top talent, and because the best Canadian development talents work elsewhere, CIDA continues to under-perform. To break this vicious cycle will take a concerted effort.

Canada's development community suffers brain-drain of its brightest talents to more attractive opportunities on the international stage. For example, the Chair of Transparency International is Canadian, the chief of staff at the Clinton Foundation in Canadian, one of the founders of Opportunity International is Canadian, and numerous top professionals

BUSINESS COUNCIL FOR PEACE: EMPLOYING THE TWC APPROACH IN POST-CONFLICT SITUATIONS

The Business Council for Peace (Bpeace) is a non-profit coalition of volunteer business people in the US, Canada, Europe, and Australia who apply their business expertise, time, and money to help women build sustainable businesses in war torn regions.

Bpeace believes that entrepreneurship is a foundation for creating hope, stability, and prosperity in post-conflict and conflict-prone regions. The equation, Women + Business = Peace, best sums up the organization's beliefs and goals.

Bpeace is currently active in Rwanda, Afghanistan, and Iraq. They support Rwandan businesswomen engaged in service businesses including a café, conference facilities, a garden center, and beauty salons. The organization also supports Afghani women and Iraqi women engaged in businesses such as textiles, private education, construction-related services including engineering, supply procurement, and water-testing.

Bpeace presents an excellent example of a TWC approach that can be applied in post-conflict situations to facilitate the often difficult transition to lasting peace and prosperity.

at the World Bank, IMF, African, Inter-American, and Asian Development Banks are also Canadians. Why do people who want to make a global difference in development fields as diverse as HIV/AIDS, environmental protection, justice, corruption, gender equity, finance, and democratic governance, have to go abroad to do so?

To achieve transformation in its operations, CIDA must also sell to top professionals in the Canadian development community a new vision of itself as a transformed organization in which excellence, effectiveness, and innovation are core values. With its operational and management cultures thus transformed, CIDA will become a desirable place to pursue a career, replacing the chicken-and-egg problem with a virtuous cycle of achievement and recruiting success.

REFORMING EMERGENCY & POST-CONFLICT AID

EMERGENCY AID

Emergency aid takes two common forms: disaster aid and food aid. While Canada's record in disaster aid is admirable, our record on food aid is dismal. Until 2005, 90% of the food aid this country offered was required to be sourced from Canada. This has since been reduced to 50%, but is still among the highest of proportions of tied food aid among OECD countries.

Our suggestions for reforming food aid are threefold.

First, untie *all* food aid and allow it to be sourced from the provider best able to deliver the quantity and quality of food required in the timeliest manner. Rather than concentrate administrative efforts on procuring subsidies for Canadian farmers, CIDA should focus on the logistics of getting the food to where it is needed.

Second, Canada should refocus its effort on rural development to attack the root causes of the need for food aid. According to Oxfam, Canada's current aid spending on rural development programs is less than half what it was 15 years ago (Oxfam Canada, 2006). A renewed focus on rural development, employing the Tools of Wealth Creation, would empower people increasingly to feed themselves rather than rely on continuous aid from countries like Canada. [17]

Finally, Canada should support existing mechanisms (and explore creating its own) that use insurance markets to offset the environmental risks that often lead to food crises. This approach was pioneered by the World Food Program (WFP) in Ethiopia. The WFP took out an insurance policy with French insurer Axa at the cost of approximately $1 million. If rainfall in Ethiopia dips below a certain level during a given growing season, Axa will immediately pay out $7.1 million on the policy (Lacey, 2006)—money that the WFP can use to purchase emergency food supplies. This market-based approach to managing food security risks is far superior to the traditional one, in which people die needlessly of hunger while the WFP and other agencies scramble to drum up relief from donor countries.

POST-CONFLICT AID

Afghanistan is currently the main recipient of Canada's post-conflict aid (albeit with plenty of conflict mixed in). Here, therefore, we make some general recommendations with respect to post-conflict aid but pay particular attention to the Afghan mission.

Steps Canada could take to improve post-conflict aid include:

- Using aid to prevent conflict;

- Recognizing a new paradigm of conflict and post-conflict aid;

17 Under the TWC approach this could include providing enhanced access to capital, technology, and markets for farmers, and increasing educational initiatives in rural areas.

- Demanding accountability for post-conflict aid disbursements and giving the military responsibility for aid delivery if necessary;
- Repositioning the deployment of aid and peacekeeping assets;
- Using Canadian expertise in building and sustaining democratic institutions in strong, sustainable federal systems; and
- Improving the timing of post-conflict aid.

USING AID TO PREVENT CONFLICT

Wars are not only tragic in terms of causing the loss and degradation of human life; they are also terribly expensive in economic terms. Paul Collier, a conflict expert at Oxford University, calculates that the average civil war in a low income country costs $54 billion (UK-IDC, 2006). The magnitude of this number suggests that if aid money can provide an ounce of conflict prevention in a fragile state so that war doesn't erupt, it would be worth much more than a pound of post-conflict cure.

To that end we suggest that CIDA, in addition to realigning its general activity onto a shorter list of "focus" countries as prescribed above, include three conflict-prone countries on its focus list. Understandably it is more difficult to execute aid projects in conflict-prone countries. With that in mind, inclusion of these countries on CIDA's priority list and third-party evaluation of its programs there should employ criteria specific to conflict-prone environments, rather than those used for general development aid. This will ensure that CIDA is not penalized for supporting conflict-prone states.

RECOGNIZING THE NEW PARADIGM OF POST-CONFLICT AID

The terms "pre-conflict aid" and "post-conflict aid" imply a chronology that does not necessarily exist in current situations. For example, Canadian troops are on the ground in Afghanistan trying to achieve peace while at the same time engaging in post-conflict-like reconstruction and development programs. The same is true of US military involvement and development aid in Iraq. This may also become a reality in the Darfur region of Sudan, where massive amounts of humanitarian and post-conflict types of aid are needed even though peace has not been achieved.

Thus, in discussing aid to conflict-prone and failed or failing states, it is important to appreciate that many of today's conflicts are complex, long, drawn-out affairs in which the distinction between "pre" and "post" hostilities is moot. Achieving peace and providing aid may be simultaneous rather than sequential endeavours. Governments engaged in both the funding and operational aspects of aid must recognize this.

DEMANDING AID DELIVERY & ACCOUNTABILITY IN POST-CONFLICT SITUATIONS

Afghanistan is currently Canada's top post-conflict aid priority. Ongoing violence in the Afghan theatre however makes it an excellent case study in the lack of accountability and barriers to effective aid delivery in such situations.

In October 2006, Brigadier-General A.J. Howard testified before the Senate Committee on National Security and Defence. He praised the work of Canadian troops in Afghanistan, but commented that a number of aid projects were being held up because they were still waiting for funding from CIDA. Upon further inquiry the committee found that of $44 million in Canadian development aid that has gone into Afghanistan so far, only $3 million has gone to Kandahar, where the vast majority of Canadian troops are located and Canada's military operations are focused (Senate of Canada, 2006).

Efforts to discover why CIDA's disbursements in Kandahar have been delayed have produced no reasonable explanation. In a letter to the Senate Committee on this topic, Minister of International Co-operation Josée Verner wrote:

> The bulk of CIDA's development assistance to Afghanistan goes to National programs delivered through the central government. Some of these programs are active in Kandahar province; however, at this-

> stage we cannot give specific figures as to how much of Canadian money in support of these programs goes to Kandahar province.[18]

This lack of accountability is unacceptable. If CIDA cannot adequately administer post-conflict aid, its responsibility should be transferred to the military. The Senate report, *Managing Turmoil: The Need to Upgrade Canadian Foreign Aid and Military Strength to Deal with Massive Change*, also recommended transferring aid responsibility to the military if CIDA and other aid organizations are unable to fulfill their role (Senate of Canada, 2006).

Unsurprisingly, NGOs such as OXFAM Canada and CARE Canada are strongly against this. They claim that mixing military and aid operations in Afghanistan will confuse the Afghan population. This objection appears to be no more than institutional territoriality. There is little evidence to show that villagers care where support comes from, as long as it addresses their humanitarian needs and arrives in a timely manner.

GEOGRAPHICAL ALIGNMENT OF AID AND PEACEKEEPING: FOCUS ON AFRICA

Peacekeeping forces are critical to providing the secure environment within which any type of post-conflict aid can hope to succeed. According to Collier and Hoeffler (2002), there is a 39% chance that peace will collapse within the first five years after a conflict, and a 32% chance that it will collapse in the following five years.

Canada has a proud history of peacekeeping. Our former Prime Minister, Lester B. Pearson, is generally regarded as having invented modern peacekeeping when he proposed the first United Nations Emergency Force to end the Suez Crisis in 1956. Canadians today uphold this legacy with pride, but must balance it with a realistic appraisal of modern geopolitical, humanitarian, and economic realities.

18 See Appendix XI in Senate of Canada, Standing Committee on National Security and Defence, 2006.

According to the *Human Security Report*, as of 2003, Africa accounted for over one third of all state-based conflicts, 90% of non-state conflicts, and over 50% of all conflicts worldwide (Human Security Centre, 2005). As we noted above, the continent is also the major focus of Canadian aid initiatives. Over half of CIDA's focus countries are in Africa. Canada has pledged to double aid to the region by 2008-2009 and has established a $500 million "Canada Fund for Africa."

Remarkably, despite the fact that Africa receives the majority of Canadian aid and sustains over half of the world's conflicts, only 64 Canadian staff officers, ceasefire observers, and military trainers serve there, supporting a mere three peacekeeping operations, one of which (Sierra Leone) is winding down (CBC, 2006). This is a striking incongruence between the countries where Canadians are engaged, or may engage, in warfare, and those to which we have allocated our aid. It could be reduced by increasing Canada's overall budget for post-conflict aid and including conflict-prone countries in CIDA's focus.

INSTITUTION BUILDING: EXPORTING "POGG"

The best-known phrase in Canada's constitutional lexicon is "Peace, Order, and Good Government"—somewhat unfortunately abbreviated by some constitutional scholars into its acronym, "POGG." It should perhaps not entirely surprise the citizens of a country that has managed to avoid serious internal conflict for 140 years over the most violent century in human history, that this same formula is the cornerstone of re-establishing post-conflict societies.

Many of the reforms we suggested in an earlier volume of this series to revitalize Canadian democracy, such as civic education, reform of the election process, and a more fully developed political infrastructure, apply even more strongly to new democracies struggling for footing on soil churned by conflict. If we can put our own house in better order, demonstrating to the world the best model of democracy in a strong federal system, we will have a great deal to contribute to post-conflict societies eager for a taste of POGG.

Some organizations already exist to transfer expertise in this area. CANADEM, with assistance and funding from Foreign Affairs Canada's Human Security Program, has a roster of over 7,500 rapid-reaction experts prepared to deliver technical assistance in governance. Similarly, CIDA's Canada Corps facilitates the efforts of Canadians to promote democratic institutions in developing and fragile states.[19]

These organizations suffer a major shortcoming however. They generally take a top down view of institution building and governance. For example, CANADEM recently sent an election monitoring team to Haiti through the International Mission for Monitoring Haitian Elections; but what good is election monitoring if the underlying framework of democracy is missing? Similarly, Canada Corps projects include strengthening the capacity of the Ministry of Women's and Children's Affairs in Bangladesh and improving the responsiveness of African parliaments through the *Africa-Canada Parliamentary Strengthening Program*. But these are elevated endeavours aimed at elites. They do not address the underpinnings of a strong democratic system such as basic civic education, building political parties, running campaigns, or fostering free and fair forms of political communication (TV, radio, newspapers, internet, etc.).

This again resonates with the Tools of Wealth Creation approach to reducing poverty. Considerable evidence shows that open markets go hand in hand with stable, peaceful democracy. Causality research shows that free markets "cause" democratic and other civic freedoms that in turn "cause" economic freedom. In other words, a virtuous cycle is created (see Griswold, 2004).

The mechanics are easy to see. When a regime has the power to determine its individual citizens' ability to feed, clothe, house, and educate themselves and their families, when it controls whether they can hold a job, get a promotion or move to another town for advancement, when it can restrict their *economic* freedom in these or any other ways, then that regime has all the tools it needs to suppress their political and civic

19 The Canadian Peacebuilding Coordinating Committee also acts as an umbrella organization for those involved in peacebuilding initiatives.

freedoms as well—at least until life becomes unbearable and violence a persuasive alternative.

Free markets give people economic independence and lessen their dependence on government, empowering them to claim other freedoms. No nation that lacks free markets has ever supported stable political and civil freedoms. On the other hand, no nation that enjoys economic freedom has ever failed to evolve towards civil and political freedoms, with only two exceptions—Singapore and Hong Kong, on which the jury of history may still be out.

Free markets, as empirical research shows, also spur peaceful solutions by creating a positive rather than a zero-sum economy. Growth in non-market economies is typically weak, non-existent, or even negative (Zimbabwe offers a contemporary case in point). This creates a zero-sum economy in which one person's gain is another's loss—and conflict almost inevitable. The only ways to secure a larger slice of the static pie are rent-seeking, political power, or, not uncommonly, some variety of brute force. In a market economy by contrast, individuals typically gain when others do better, because those others either become better customers or more efficient producers of goods and services the first individual wants. In the process the market economy grows, increasing the pie and everyone's prospects of getting a slice. Its citizens enjoy a stake in that growth, hope for the future, and thus have all the reasons in the world to seek peaceful solutions. (See, for example, Gartzke, 2005.)

That virtuous cycle is the reason why the Tools of Wealth Creation are equally *tools of peace creation.* As such, we recommend that post-conflict aid aimed at building democratic infrastructure work from the bottom up with a focus on the Tools of Wealth Creation, rather than from the top down with a focus on elites. We believe this will have a more lasting effect and generate more substantial peace (as well as financial) dividends for post-conflict societies.

IMPROVING THE TIMING OF POST-CONFLICT AID

Finally, it is important to consider the timing of post-conflict aid. There is no such thing as a quick war and a quick peace. To its credit, the Harper government seems to realize this in Afghanistan. In the Prime Minister's speech to the UN in September 2006, he stated "The challenges facing Afghanistan are enormous. There will be no quick fixes."

This mindset is absolutely necessary when embarking on post-conflict and reconstruction aid. Collier and Dollar (2002) highlight one of the most common mistakes: providing too much aid immediately after peace is achieved, when institutional and human capacity is low, and then removing the aid just as the country has gained the capacity to use it effectively. They suggest that reconstruction aid instead "taper in" rather than "taper off." Canada's commitments to post-conflict aid should be made for the long haul; our aid should rise as recipients' capacity improves (up to the point of "saturation" we noted earlier), rather than withdraw as soon as the first signs of success appear.

FISCAL AND POLITICAL IMPLICATIONS

The Canadian government has committed to raising its aid budget to 0.7% of GDP by 2015. Why adopt a random, analytically arbitrary monetary target rather than a reasoned, evidence-based target keyed to results? In addition to the oft-noted absence of any fiscal, macroeconomic, or empirical basis for this 0.7% target (Moss, Pettersson, and van de Walle, 2006), it is flawed from a deeper perspective. The commitment targets money *to be spent*; it says nothing of how, or how well, it is *used*. Where is the incentive to improve, or even achieve, poverty reduction or development when more aid money flows each year regardless of its effectiveness? This is the epitome of the preference for activity over results.

In his paper, *The Cartel of Good Intentions*, Easterly (2002) draws attention to the risks to both donor and recipient countries of qualifying aid by funds dispersed rather than services provided. He goes on to show how this encourages aid agencies including CIDA to focus on low return/high visibility activities such as producing glossy reports and hosting conferences, rather than the high return/low visibility activities that actually reduce poverty.

SUMMARY OF RECOMMENDATIONS

Point-seven per cent of our GDP may or may not be the right amount of money for Canadians to spend trying to alleviate poverty and reduce suffering in the world beyond our borders. What is inarguable is that it is the wrong way to look at the value or sufficiency of our effort. This chapter has identified the crippling flaws to this input-oriented way of thinking about development aid. It has also identified numerous opportunities to transform Canada's practice of foreign aid into something much closer to what we believe Canadians have in mind when, in large numbers, they express their support for it: *effective, focused, appropriate* aid that *empowers* the world's disadvantaged to rebuild shattered societies and escape poverty once and for all. In short, foreign aid that really helps.

Our recommendations for taking advantage of these opportunities can be summarized as follows:

- Adopt the Tools of Wealth Creation as the centerpiece of development aid, to equip poor people with the resources to pull themselves out of poverty. These include:
    - Property rights;
    - Access to capital;
    - Human capital development;
    - Access to technology; and
    - Access to trade markets.

- Use Public-Private Partnerships, where appropriate, to undertake projects that would otherwise be unfeasible in developing countries and create multiple winners among local governments, donors, the private sector, and local citizens. PPPs are particularly suited to infrastructure and vaccine development.

- Strengthen internationally active NGOs in Canada by encouraging consolidation and economies of scale and specialization in the sector.

- Transform CIDA by:

- Requiring increased accountability to both the government and the Canadian public;
- Improving operational efficiency;
- Replacing a "made-in-Ottawa" approach to aid with an "on-the-ground" approach;
- Adopting a "90-10" rule;
- Buying-in research rather than duplicating existing expertise;
- Creating a market place for aid projects; and
- Demanding execution, leadership, and sound management at CIDA.

- Reform food aid by:
  - Completely untying food aid;
  - Refocusing efforts on rural development; and
  - Supporting market-based approaches to managing environmental risks, such as drought insurance.

- Improve post-conflict aid by:
  - Recognizing the new paradigm of conflict- and post-conflict aid;
  - Increasing the amount of aid allocated to both conflict-prone nations and post-conflict situations;
  - Demanding accountability for post-conflict aid disbursements and giving the military responsibility for aid delivery if necessary;
  - Realigning Canada's aid and peacekeeping priorities to focus on Africa;
  - Using aid money and Canadian expertise to facilitate bottom-up institution building and governance initiatives in post-conflict nations; and
  - Improving the timing of post-conflict aid.

5 A REVITALIZED CANADA

TO LEAD AND INSPIRE

"If there is one thing that has struck me in the short time I have been in this job, it is how critically important foreign affairs has become in everything we do. The globe is becoming a village. And virtually every significant challenge we face – economic, environmental, demographic, security, health, energy, you name it – contains an important, if not critical, international dimension."
– Prime Minister Stephen Harper, October 5, 2006.

The vision we have pursued throughout the Canada Strong and Free series is of a Canada whose people live in the best-governed democratic federation in the world, enjoy the highest quality of life in the world, and are sustained by the best performing economy in the world.

A Canada that implements these policies and achieves these goals will inevitably enhance its leadership internationally – since the majority of people in every country on the globe likewise aspire to good governance, an improved quality of life, and the benefits of a strong economy.

Do Canadians want to play a stronger leadership role on the world stage? We are confident that they do. Let us then lead by example, implementing those polices at home which will make us a model and inspiration to all who share these aspirations.

In this volume we have recommended additional steps Canada can take to enhance its leadership role on the international stage:

- Leadership with respect to trade liberalization – pursuing freer trade internationally at every opportunity and opening up our own markets more fully to the world.

- Leadership in deepening our relationship with the United States – demonstrating to the world our capacity to pursue common interests in security and trade while maintaining independence of thought and action on those issues where our interests differ.

- Leadership in innovative development that effectively reduces poverty, and humanitarian aid that begins to restore shattered societies – freely distributing the empowering Tools of Wealth Creation rather than dependence on the redistribution of wealth itself, and finding a more appropriate balance between the roles of government, NGOs, and the market in providing aid.

How will you and your family benefit as Canada takes a more vigorous leadership role on the international stage?

More and better jobs with higher incomes. Your prosperity and that of your children will be better secured, as Ottawa launches new trade initiatives, particularly with the United States, to deepen and expand the international markets on which an ever-increasing number of Canadian jobs rely.

Personal security. Your safety in a dangerous and unpredictable world will be increased, as Canada restores its national, continental, and international defence and peacemaking/peacekeeping capabilities.

Pride in your country. Your sense of pride in Canada as an international beacon of hope will be increased, as Canada assumes greater international responsibility for the defence of freedom and the eradication of suffering by building prosperity in poor nations. You will no longer be embarrassed by Canada's failure to match its rhetoric with action on the world stage.

Enriched individual prosperity, greater personal security, and a brighter sense of pride in your country are goals worth striving for. Together, we can achieve all of these with effective, focused, and appropriate public policies that empower private initiative at home and abroad. We conclude by renewing our invitation for you to join us in refining and promoting the actions that will restore to a place of international leadership our *Canada Strong and Free*.

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