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Overview

September 1985

Competitiveness and Security

Directions for Canada's International Relations

Background

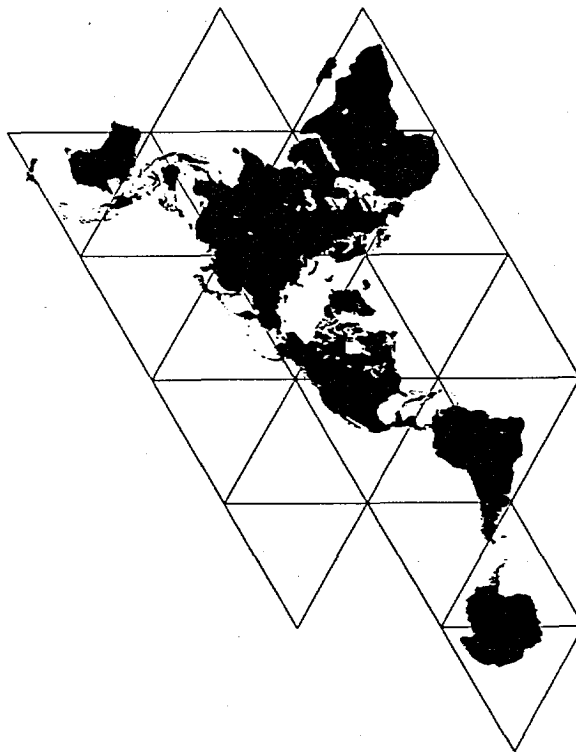
The Discussion Paper (Green Paper) tabled in the House of Commons on May 14, 1985, by the Right Honourable Joe Clark represented a first step in a broad parliamentary review of Canada's international relations. The Green Paper was not a proclamation of government policy; its purpose was to prompt a long overdue public discussion of issues that have a major impact on the lives of all Canadians. Accordingly, after tabling, the Government referred the Paper to a Special Joint Committee of the House of Commons and Senate, and empowered it to conduct hearings across the country.

As indicated by Mr. Clark in his foreword, the Green Paper is thematically focussed "to illustrate the dramatic changes which have taken place in the world and to raise some of the principal questions which Canadians need to consider at this time". It devotes special attention to Canada's international economic competitiveness and the need for careful setting of policy priorities.

Canada in the World

Canadians have been fortunate people. For most of our history we have lived at a safe distance from a turbulent world. We have enjoyed considerable prosperity and peace, while many others have often lived in hunger or fear. But times have changed. The difficulty of controlling our economy on a satisfactory basis has blurred the borders of domestic and foreign policies. Neither Canada's prosperity nor its security can any longer be taken for granted.

If the *status quo* is not a satisfactory



option, Canadians face some difficult choices. To make the right decisions, we must first take a hard look at ourselves — especially our economic competitiveness and our power and influence in international affairs — and at the need for change.

Competitiveness

Since exports are of special importance to Canada, we are likely to be economically secure only if Canada is internationally competitive. Gone are the days when an abundance of key natural resources assured export sales. Canada has become increasingly dependent on those manufacturing sectors that have to be competitive in the international market place.

In some sectors Canada has done well and, in those, we should be able to keep pace — in agriculture (especially grains), newsprint, pulp, steel and transportation products. In some other sectors Canada is at the leading edge of technological development — notably in telecommunications and digital technology. But in still other areas there is evidence that Canadian economic competitiveness is slipping.

Failure to maintain or achieve competitiveness in world markets will adversely affect Canada's wealth and its economic future. This may affect adversely our standard of living, jobs of Canadians in every region and the quality of our social system. An economically poor Canada will have greater difficulty assuring its cultural well-being and its potential for national self-expression. It will have less influence in the world as an economic power, as a partner to poorer nations and as a voice on international political and security issues.

Power and Influence

Canada indeed retains many of the assets necessary to restore its international influence. It is still a country of economic importance and has the world's ninth largest economy. Our assistance to developing countries continues to be a source of international influence, and so has our record on peacekeeping.

Canada is respected for its stable parliamentary democracy, dedication to the rule of law in international relations, support for the UN system, strong advocacy of arms control and disarmament, commitment to human rights and

environmental integrity, training of foreign students and support of international educational and cultural exchanges. Through membership in such bodies as the North Atlantic Treaty Organization, the United Nations, the Organization for Economic Development and Co-operation, the Commonwealth and la Francophonie, Canada is often able to influence the policies of the larger countries and enhance its reputation with the smaller ones.

As a nation of some military consequence, Canada's forces, though relatively small, are highly professional. We rank sixth among 16 NATO allies in total defence expenditures. Our northern territory and early warning system provide some of the vital strategic depth on which the effectiveness and credibility of the American nuclear deterrent depends and on which, in turn, the security of the West depends. Canada's manpower, national resources and industry remain committed to the defence of Western democracy, as we have proved in two world wars and at a cost of over one hundred thousand Canadian dead.

Yet, it is in the area of military capability that Canada's power has been most markedly in decline. Some decline was inevitable and normal; Canada does not have a history of large forces in peacetime or a tradition of universal military service. But it is now generally recognized that the decline was allowed to go too far.

Nations derive international influence from the assets at their disposal and effectiveness in using them. Influence is a function both of national assets and national will; neither, by itself, is sufficient.

The Need for Change

Whatever the international yardsticks, Canada's ability to compete remains in its own hands. We can try to create a climate in which our stronger industries will flourish. We can rely less on government protection for those other industries that are not or cannot be competitive. We can enhance our human capital through technical education and training. Co-operative education, industry-university research collaboration and the development of centres of excellence and specialization are important factors.

Directions for Change

If Canada is to make its way successfully in the world, we must ask ourselves the right questions about what we want and what we can achieve. We do not have the resources to do everything. We face tough choices, which go to the heart of our national life. To succeed, we need to develop a national consensus on how to deal with the critical international challenges before us.

International Economic Affairs

It is difficult to achieve industrial competitiveness and successful marketing within the relatively small domestic Canadian market. For many industries, secure access to a larger market is a precondition of competitiveness. The rise of new forms of protectionism abroad threatens to reduce Canada's access to key foreign markets, especially in the United States, with consequences that could be damaging for our industrial structure and national prosperity.

Canada-United States Trade

There is scarcely an area of Canadian national life which is not affected by our complex relationships with the United States:

— Canadian fiscal and monetary policies, especially interest rates and exchange rates, are heavily influenced by developments in the US.

— About three-quarters of Canadian exports go to the United States' market, and Canada is by far the largest market for US exports. Two-way trade approached \$154 billion in 1984. Just the increase in Canadian exports to the United States last year exceeded the total of our exports to Europe and Japan.

— 80 per cent of all foreign investment in Canada is American; 15 per cent of all foreign investment in the United States is Canadian.

— US companies control about half of Canada's oil and gas industry; Canada is the United States' largest foreign source of natural gas.

— Canadians are more heavily influenced by American social and cultural values than by those of any other foreign group; transborder travel is extensive, in both directions.

— The physical environment of each country is affected by developments in the other.

— Both countries share responsibility for the defence of North America, and they are the only two non-European members of NATO.

In the absence of an agreement to secure and enhance trade, the growth of US protectionism could seriously hinder the access of Canadian exports to the United States' market, affecting our prosperity and especially the security of many thousands of jobs. Canada-based companies could increasingly be obliged to set up operations in the United States to reach and serve the US market. The financing of the instruments of our distinctive nationality, including social programs and instruments for cultural self-expression, could be made more difficult.

Policy makers will need to be satisfied that, if Canada-US trade were to be liberalized further, the benefits to us would outweigh the costs. For example, would the international competitiveness of Canadian companies be advanced or reduced? Policy makers will also need to take account of the potential consequences of a more liberalized trade environment for such areas as taxation, occupational safety, regional development, industrial incentives and environmental regulation. Also, if trade barriers were significantly lowered, would new investors, Canadian or foreign, set up production in Canada or the United States?

The government is seeking the views of all interested Canadians on these issues. *How best can we secure and enhance the access of Canadian exports to the US market? Do Canadians believe that an agreement on closer trade relations with the United States will produce important economic, cultural and foreign policy advantages or disadvantages?* This is an historic quandary for Canadians: what kind of economic and political relationships with the United States do Canadians want for the 1980s and beyond?

International Development Co-operation Issues

Over the years, Canadian understanding of the diversity and complexity of the Third World has become deeper and more sophisticated, and so has our appreciation of the interests Canada has at stake. Trade and investment, immigration, environmental conservation and international peace and security have been added to Canada's original, largely humanitarian, objectives. The

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prospects for pursuing these interests in the Third World have become increasingly linked to other key items on the international agenda — energy, debt and finance, trade and domestic industrial change.

Churches, provincial and municipal governments, private organizations, small businessmen and concerned Canadians from all walks of life have demonstrated both the desire and the capacity to help. Many thousands of Canadians are involved in humanitarian and economic and social development efforts throughout the world, often in ways the government could not duplicate, even if it wished. *How can government assist Canadians best to help others? How directly should development assistance serve Canadian foreign policy interests? What should be the nature of the linkage between our trade and aid programs? Should our practice of tying aid to procurement in Canada be relaxed for the poorest countries? How much of the government's effort should be channelled through Canadian non-governmental organizations (NGOs)? What changes would improve our program delivery?*

There is a need to examine the objectives, policies and programs of Canada's co-operation with the Third World. In seeking the right balance in our programs abroad, priorities must be chosen and decisions will not be easy. Canadian funds for assistance abroad are limited.

Strengthening the Multilateral Economic System

Successive Economic Summits, in which Canada has been a participant, have stressed the importance of rolling back protectionism. A new Multilateral Trade Negotiation (MTN) round is expected to be launched soon to deal with contemporary obstacles to trade, including tariff and non-tariff barriers, and to expand coverage of international rules on agriculture, services and safeguards. It would also attempt to bring the Newly Industrialized Countries (NICs) more fully into the General Agreement on Tariffs and Trade (GATT) system of rights and responsibilities. The negotiations on these issues, however, could be lengthy and the results limited and long-term. Nevertheless, Canada supports the initiation of a new round of multilateral trade negotiations in the GATT, which may serve to re-establish the

integrity of the multilateral economic system. Domestic consultations are under way to define Canadian interests so that we can, in turn, help to establish the negotiating agenda. *What do Canadians, especially business and labour, want to see on that agenda? Should we allow or, alternatively, can we resist more international competition in certain domestic sectors that now benefit from various forms of protection?*

For Canada, a rise in protectionism abroad poses great dangers. We must have reasonably secure access to markets large enough to generate the revenues necessary for a sound return on investment and to support the further development of competitive products. To be competitive, Canadian industries must develop world-class products incorporating the finest technologies and materials available at home and abroad. We require heavy investments of human and financial capital and long-term production and marketing strategies.

Competitiveness, Investment and Exports

Canada's international competitiveness is, to a large extent, determined by our firms' capacity to invest and their ability to innovate, using their own research and development and applying the best technologies available. It needs to be backed up by economic diplomacy and combined with even more effective export marketing. A number of critical questions need to be answered:

- Is there scope for closer government-industry-banking co-operation to attract productive investment to Canada?
- Should the federal government and Canadian industry and banks develop a program to prospect abroad for potential direct foreign investment?
- How best can government programs abroad complement private sector activity in acquiring the most advanced technologies from abroad and disseminating them in Canada?
- Would Canadian industry lend experienced personnel to the government to identify important new technologies abroad and to direct this information to the companies who need it?
- How best can government, industry (including multinational enterprises) and other research centres co-operate to keep abreast of leading-edge technology?

- Should more be done by government to bolster trade promotion resources in the areas where trade prospects are most promising, particularly in the Asia-Pacific region?
- Should new Canadian posts be opened abroad and, if so, where?
- Given budgetary realities, from where should the required resources be re-allocated?
- Should we distinguish between that portion of our trade which genuinely requires government support and facilitation and that portion which takes place (and will continue to take place) without any reference to government export programs and activities?
- How can greater use be made of the international marketing expertise of trading houses, particularly for small and medium-size manufacturers and producers?
- What roles should the government and the private sector play in promoting awareness of trading house opportunities and activities?
- Is a computerized national trade opportunities information system practical?
- Could the private sector take over certain trade promotion activities hitherto performed by government?
- In a climate of fiscal restraint, should business pick up part of the costs of government assistance, say on a fee-for-service basis?
- What are the most effective ways for the government to facilitate the establishment of joint ventures abroad between Canadian and foreign companies in order to facilitate Canadian penetration of foreign markets?

International Peace and Security Issues

Not all international developments are equally important to Canada — or equally susceptible to our influence. What was vital once may no longer continue to be so. We need to set priorities and, in doing so, we need to put the emphasis on those issues on which our interests and our capabilities coincide. We also need to bear in mind that military capabilities have a place in an effective foreign policy. What priorities do Canadians wish to ascribe to national defence, to making a substantive and cost-effective contribution to collective security, and to enhancing Canada's international influence?

Security Priorities

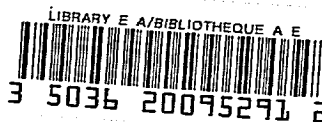
There are certain obvious requirements for any nation if it is to command the respect of its neighbours, allies and other nations. For example, control over Canada's national territory, airspace and coastal waters is essential, both for the assertion of sovereignty and for the preservation of security. To be effective, control requires a surveillance and detection system able to provide a continuing picture of activities on land, in the air and at sea. Control also requires a capability to intercept aircraft and ships engaged in unauthorized or illegal activity — whether they be civilian intruders running narcotics or military intruders probing Canada's defences. Most countries exert such control as a matter of routine. For Canada, it is a daunting task in view of the length of our coastlines, the vastness of our territory, the hostility of our climate and the disproportionately small size of our population.

Many factors will bear on future defence expenditures. One is whether our military assets enhance our influence on international peace and security issues to the maximum extent possible. *Are there cost-effective ways of enhancing Canada's military security and our international political influence? Are there other approaches to peace and security issues that we might take in support of our foreign policy objectives?*

Collective Security through NATO

As it became clear that the UN could not be relied upon to guarantee a nation's security, and in response to the Soviet Union's territorial ambitions in Europe, Western states entered into a regional collective defence arrangement — the North Atlantic Treaty Organization. NATO's basic purpose was, and still is, to *deter* aggression against any of its members by presenting a common front — in the belief that it is better to prevent a war than to fight one. And infinitely less costly.

There never has been any serious question of Canada's adopting a neutral position between East and West. We are determined to uphold and defend our ideals of freedom and democracy, and the need to defend ourselves is real. This is why we remain in NATO and cooperate with the United States in the defence of North America.



Arms Control and Disarmament

There is a widespread consensus in Canada that defence and deterrence are only one dimension of international security and that effective arms control and disarmament agreements are a necessary complement. Questions which Canadians need to ask themselves relate to the balance to be struck between these two dimensions, and to how we can use our influence — as a country concerned about peace, skilled at mediation and negotiation and technically proficient — in the quest for international security.

In rejecting the nuclear option for itself, Canada set an example to the world, but at the same time dealt itself out of a seat at the nuclear negotiating table. Nonetheless, we have persevered in NATO, in the UN and in our bilateral relations in encouraging the nuclear powers to reach agreement on substantial reductions of their strategic and tactical nuclear arsenals.

In the future, Canada may need to take decisions on some of the diverse and sometimes contradictory strategic, arms control and technological interests that bear on strategic defence. The United States' Strategic Defence Initiative (SDI) has been described not only as holding out the prospect of enhancing deterrence and the promise of eventual elimination of nuclear weapons, but also as potentially undermining strategic stability. Moreover, SDI could turn out to involve a prodigious research effort, dwarfing the Apollo project in cost and technical complexity. Its technological spin-offs could be very important for both our military and civilian sectors. We will have to reach a consensus on whether SDI is likely to enhance or diminish Canada's security, and we will have to consider to what extent Canada's economic and technological interests are at stake.

A great deal is at stake in multilateral disarmament diplomacy. Conferences and alliances are important vehicles for promoting arms control and disarmament objectives. They provide an essential mechanism for smaller and middle powers to influence arms control issues. Canada has, therefore, tried to make the most of existing multilateral forums devoted to these questions. Are there new, practical ideas that Canadians believe we could bring to these discussions? Do Canadians believe that declaratory

measures on arms control, such as calls for a "freeze", serve a useful purpose in building confidence or in leading to reductions? Budget permitting, should we make technological support for arms control agreements in such areas as verification a Canadian priority?

There is an important role here for concerned Canadians. In addition to normal parliamentary processes, special mechanisms exist for channeling the public's ideas to the government, including the Ambassador for Disarmament's Consultative Group on Disarmament and Arms Control Affairs, the Canadian Institute for International Peace and Security, and private organizations. The government's Disarmament Fund further facilitates the process of public participation and involvement in the discussion of these issues. Are further consultative mechanisms required?

The UN System and Multilateralism

A number of countries, some of them Canada's friends and allies, no longer attach the importance to the United Nations that they did formerly. In these circumstances, we need to ask ourselves to what extent the UN furthers Canada's current and prospective interests. If, despite its problems, we consider the UN irreplaceable, what priority should Canada put on revitalizing it and what practical steps can be taken?

Canada has in the past, and could again, make a substantial contribution to the United Nations through peacekeeping. However, there has been some tendency in recent years to bypass the UN in favour of other multinational arrangements. Do Canadians agree that we should encourage a return to UN sponsorship of peacekeeping operations, and devote additional Canadian resources to them — despite the frustrations involved?

The UN's economic and social institutions suffer from undue politicization and, in some areas, from inadequate attention to budgets and costs. UNESCO is a prime example. Canada is working to reform UNESCO from within, whereas other nations have decided to withdraw. What action would be in Canada's interest?

Multilateralism comprises more than the UN system. Other international institutions,

CANADA'S EXPORTS AND IMPORTS

(Customs Basis)	Exports			Imports		
	Value	Average Annual		Value	Average Annual	
	\$ million 1984	1970-84	1980-84	\$ million 1984	1970-84	1980-84
NORTH AMERICA	85,087	15.8	15.3	68,540	14.8	9.0
United States	85,056	15.8	15.3	68,537	14.8	9.0
WESTERN EUROPE	8,247	7.2	-7.6	10,029	12.4	9.4
EEC (10)	7,157	7.0	-7.3	8,248	12.5	10.3
United Kingdom	2,540	3.8	-5.9	2,319	8.5	4.1
West Germany	1,255	8.7	-6.9	2,174	13.5	10.6
France	732	11.6	-7.9	1,219	15.7	12.1
Italy	598	8.7	-12.1	1,116	15.7	16.3
USSR & EASTERN EUROPE	2,491	21.1	3.8	306	10.6	-0.1
USSR	2,126	24.2	8.4	29	10.7	-16.3
Eastern Europe	365	12.8	-11.9	277	10.6	2.8
ASIA & OCEANIA	10,695	14.8	6.6	10,844	18.0	17.3
Pacific Rim	9,971	15.5	6.5	10,574	18.4	17.3
Japan	5,654	14.9	6.6	5,711	17.7	19.5
South Korea	724	29.7	9.0	1,152	36.4	29.2
China	1,279	17.0	10.0	334	22.7	21.2
Hong Kong	228	18.6	3.5	966	19.7	13.9
Taiwan	407	25.0	12.5	1,224	25.3	21.7
Australia	658	8.8	-0.8	381	7.1	-3.9
ASEAN	817	17.9	2.5	675	18.9	14.8
South Asia	720	9.6	8.2	251	10.9	15.9
India	472	9.6	7.1	147	9.7	11.5
MIDDLE EAST	1,703	20.4	10.4	452	11.1	-37.8
Saudi Arabia	371	32.8	4.3	1	-20.3	-85.8
Egypt	290	15.6	22.2	73	45.1	60.5
AFRICA	1,137	14.3	1.4	952	13.9	15.3
Algeria	453	25.4	3.6	307	68.9	124.9
South Africa	207	5.0	0.1	222	11.9	-11.1
LATIN AMERICA & CARIBBEAN	3,136	10.6	-5.9	4,720	14.7	3.9
South America	1,667	11.3	-8.8	2,441	12.4	-5.1
Brazil	797	16.6	-4.6	670	20.5	17.8
Venezuela	292	7.1	-19.0	1,207	9.5	-14.1
Colombia	219	16.8	-1.9	110	10.6	2.2
Argentina	93	3.2	-20.4	93	18.2	26.8
Central America	516	10.8	-6.0	1,656	22.7	31.7
Mexico	358	9.9	-7.8	1,438	27.7	42.9
Caribbean	954	9.6	0.6	623	12.6	6.5
Cuba	338	13.3	-5.6	63	14.1	-21.2
WORLD	112,495	14.5	10.2	95,842	14.8	8.5

Source: Statistics Canada, 65-004 Dec. 84, 65-007 Dec. 84, 65-202 Annual, 65-203 Annual.

including the Commonwealth and La Francophonie, have key roles to play. In what ways can these organizations, and Canada as a member, help to build an international consensus on difficult issues?

Regional Conflicts

In deciding how we should respond to particular Third World conflicts, it is necessary to determine how Canadian interests are affected by them (whether fundamentally or marginally), what means we have at our disposal and how much our responsibility to the international system requires.. Not everything can constitute a priority demand on our resources.

Central America and the Caribbean have been the troubled regions closest to home. It is generally agreed that the sources of unrest there are primarily socio-economic. Are our aid programs in Central America an adequate Canadian contribution to stability? Do Canadian political and security interests require additional involvement? Would a more active Canadian security presence in the Caribbean region have a stabilizing influence and help to diminish superpower rivalry in this region?

Canadians have long debated whether to join the Organization of American States (OAS), and have put forward strong arguments for and against. Where do Canadians stand today on this issue?

Over the years, we have tried to maintain a careful balance in our relations between Israel and its Arab neighbours. Are Canadians satisfied that the balance is right?

How can Canada and other countries forward change in South Africa while avoiding isolating that country and making communication and peaceful change more difficult? Is foreign investment part of the problem or part of the solution?

Summing Up

The messages are clear. Canadian economic interests require us to be competitive, and we must export to prosper. Security interests demand that Canada play its part in Western defence and in arms control and disarmament. Our values dictate that we help the poor, the

hungry and the politically abused. At the same time there are practical limits, including financial limits, to Canada's ability to act. A national consensus on policy priorities may be required if Canada is to prove equal to the challenges that lie before us.

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