

Keynote Address

**Canada in Transition: Facing the Shift from Global Middle
Power to Senior Regional Power**

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Whenever I reflect on Canada's challenges in its present context I am reminded of a response Henry Kissinger gave when asked, during a visit to Canada that coincided with one of our endless constitutional episodes, whether he cared to offer an opinion on the constitutional "crisis du jour"? He responded, that Canada was, in comparison to most other countries in the world, so profoundly without problems that he surmised that we had created the constitutional issue to keep our politicians busy. "Imagine if they had all the free time liberated if there were no constitutional issue... Imagine how much mischief they could get into then?" Those of us who study Canada, both around the world and at home, understand that, while Mr. Kissinger was not altogether wrong, he is also right in suggesting that Canadians keep their problems in perspective.

We are in the last months of Prime Minister Chretien's administration, and the period between 1993 and the present has been one singularly devoid of policy mischief, despite the absence of serious constitutional engagement. It has been a period marked to the credit of the Prime Minister, by fiscal consolidation, effected in part by federal cuts in transfer payments to the provinces, which, in turn, produced significant run downs in social and healthcare capacity for our provinces and cities. The fiscal improvement, as well, came from escalating tax revenues from a booming economic climate in North America. While some modest re-investment has begun through federal provincial agreements on healthcare-both before the 2000 general election and since, it will be some time until the actual purchasing power that existed in both healthcare and social service budgets in 1993 is available in constant dollars.

We can expect this "gap" to be a major theme in the new Democratic Party attacks on the present government – from the left-in next year's federal election.

This fiscal consolidation saw the eradication of the deficit for the federal government, with a largely improved if more precarious fiscal balance in the provinces; and for this Mr. Chretien and his Finance Minister for most of the last decade, Mr. Martin, deserve significant praise. The consolidation is even beginning to produce some downward pressure on tax rates, although these pressures are slight, and Canada's taxpayers are still at a serious competitive disadvantage when compared to many countries with whom they compete-an issue vital to the forward looking challenges of human capital formation in our country. Expect this tax gap to be a key part of the Conservative and Alliance campaigns- from the centre right- in the elections of 2004.

The critical nexus of issues and challenges I want to reflect upon with you today does not, however, benefit from a listing of the achievements or failures of various federal or provincial governments that are in power today or who have held power during the last decade; the nexus I want to focus on is that which exists at the confluence of two great trends in Canada's foreign and domestic policy.. the trend away from a salient and substantial role as a Global Middle Power and the trend towards domestic and international policy options more and more determined by strictly North American priorities. These are two separate and discrete trends – that will dominate public policy discourse in the coming decade. The former trend is reversible, that latter trend is not.

In the same way that I disagree profoundly with those who argue that many countries in Africa are poor because Europeans and North Americans are relatively rich, I also want to disassociate myself from any notion that the diminished Canadian middle power stance is a result of the increased imperatives of North American economic and political integration. Let me offer you the hypothesis instead that Canada has become extremely introverted during the last decade, focusing

on taxes, deficits, healthcare and the rest, and has, as a result, become politically unable or unwilling to make the investments, take the risks, make the choices essential to sustain any of: -the Pearsonic commitment to international creativity backed up by military and diplomatic capacity, -the Trudeau focus on stronger European and non aligned ties and aid, -the Mulroney focus on anti-apartheid or pro NATO initiatives with his strong support of democratic development in Eastern Europe. Our politicians might be blamed by some for not showing more leadership -but that is a little unfair to both Mr. Chretien and Mr. Martin. To get elected in Canadian democracy, one must reflect the public mood. There is no evidence that Canadians wanted levels of international engagement any more pronounced than those offered by our political leadership. Some may argue that leadership on this issue would have changed this dynamic; I leave that verdict to historians.

Moreover, this pleasant and civil Canadian disengagement is sustained by some large conceits and illusions. They are tied to a kind of nostalgic disorientation that allows us to embrace realities of another time as if they were real today. We have not been a significant UN peacekeeping force for some time, yet we believe that diplomatically we punch "above our weight". We are unable to actually meet military goals set by our own government's white paper on defence in 1994, yet government has believed that this does not matter. The outstanding work that Canadian forces and diplomats have done or are doing, in Bosnia, Kosovo, Afghanistan, Cyprus, the Golan heights, the Sinai and elsewhere does not mitigate the inability to dispatch a division, deploy 10 squadron of fighting aircraft or fully man our naval assets. Undeniably, economic and political forces are shaping a North American imperative for Canada, yet official policy suggests that we are replete with many policy options. These conceits conspire to create a sense of prerogative and discretion which do not exist in reality, but which, as serious public policy illusions, obscure our capacity to see reality and act in our own national interest effectively.

And while I would like to suggest that coming elections will facilitate a solid thrashing out of the public policy choices in these areas faced by Canadians, it would be wildly optimistic for me to do so.

The fragmentation of the Conservative Party, Canada's major alternating force at the federal level into three parties-one that only runs candidates in Quebec, one that can only get elected in meaningful numbers in the west and one that is largely hemmed in to the Atlantic provinces means that the incumbent Liberal government faces no meaningful democratic risk. And this absence of risk is not the Liberals' fault. It is the product of our rigid first past the post Westminster electoral system and the inability of opposition parties to form either strategic or tactical pre-election coalitions affording Canadian voters an alternating choice should they wish to embrace one. While a badly managed transition from Chretien to Martin, as was the case between Trudeau and Turner in 83-84 or St. Laurent and Pearson in 56-57 could increase Liberal risks, it is not highly likely.

There is little insight I can bring to Russian colleagues about what happens to the range of real political choices in a society when the government of the day ceases to face meaningful democratic risk. What I should underline, however, is just how different this situation is from our political past in Canada. Up until the Chretien era, minority governments-governments where the governing party had a plurality but not a majority of seats in our parliament were more usual than majority governments. Mike Pearson, Pierre Trudeau, Joe Clark, John Diefenbaker, Mackenzie King and even our first Prime Minister, Sir John MacDonald were all Prime Ministers who had

minority governments at various points in Canadian history. Real democratic risk was a daily political factor.

And, while the enhanced activity of the Centre-left party, the New Democrats under their new leader, Mr. Layton, should give our governing Liberals some pause in terms of their left flank, the divisions between the parties of the centre right and right will protect Liberal hegemony for some time to come. The problem is not the splitting of the vote; it is more about the presence of only one party at election time able to genuinely propose forming a government.

A jarring intensely competitive election through which Canadians can sort out competing national priorities is unlikely to happen anytime soon. The last one of those we had in Canada was really in 1988-when Free Trade with the Americans dominated the debate. Public opinion and voting intention shifted dramatically in both directions during that campaign reflecting the way Canadians were grappling with that issue. Voter turnout was high. Our Voter turnout since 1997 has fallen to historic lows for Canada, produced in my view by both the high level of wasted votes in our first past the post system and by the sense that the outcome is largely pre-ordained. If only one party has the possibility of forming a government in Parliament, the incentive to vote, either for or against that party is largely diminished.

So, there is unlikely to be an electorally viable proposal on the table to force some decision between a more internationalist Pearsonic role for Canada in the larger world, with all the investment and risk issues associated with that view, and a more regionally oriented role as a hemispheric force for continental integration first, with our partners in Mexico and North America - and, then, over time with the Americas overall. As a small, open market economy tied to North American economic and political cycles, we need to make some choices. But the first requirement for making choices is understanding that choices need to be made. This is a perception that I believe to be seriously lacking in senior bureaucratic circles in Ottawa-and some senior Liberal party and government circles as well. It is one thing to defend and advance one's own national sovereignty; it is quite another to have an inflated view of how real that sovereignty actually is. It is one thing to want to protect and enhance sovereignty; it is quite another to use it as a constraint that diminishes any and all creativity, fresh policy thinking or genuine innovation. Sovereignty is not an end in and of itself - as we have learned from Schuman, Monet and the European project. It is an instrument, not a goal; economic performance, social justice, happier lives and prospects - these are the goals for which sovereignty should be creatively used. It is precisely this kind of creativity that enhances the real sovereignty of individual citizens and societies when economic and social prospects are improved. This has happened because, over the years, nations have found ways to get beyond the sterile 19th century version of sovereignty that has been profoundly changed by everything from the new Europe, to international trade, to common agreements between countries and peoples to build better regions more united continents or a more peaceful world.

So, in the absence of an internal political will to face this issue, or even a democratic environment sufficiently dynamic to facilitate public debate and electoral choice on this issue, it is likely to be external forces shaping economic and social conditions that will determine the real rate of policy change. If no party with electoral prospects advances proposals for a Canada with the enhanced foreign aid, defence, diplomatic or policy muscle to count constructively in the world on issues that

matter, the debate will be simply about how to address short to medium term economic and social problems. And, that debate leads unavoidably to the North American imperative.

Why?

The evidence is quite clear. The post 9/11 security reality in North America has made the management of our border with the Americans an issue of economic survival. Whenever America shifts from "just in time" to "just in case" border management, billions of dollars of trade are effected immediately producing huge economic impacts on jobs and earnings. The absence of a common North American monetary exchange rate, is producing serious challenges for Canadian importers and exporters at both ends of the dollar value spectrum. As most Canadian value added exports require import components first, a falling Canadian dollar can be as unhelpful in some industries as a rapidly rising dollar to exports overall. As enhanced productivity depends on importing machinery and software, a lower dollar tends to buffer natural resource exports at the expense of newer knowledge and technology based industries.

If we need to reduce impediments at the Canada/US border, then harmonization around aspects of immigration policy for North America, both from outside and for internal migration patterns will be very much necessary. This will, over time, also be the case in related areas like professional certification, and financial regulation-two trends very much moving quickly as we speak. Core issues of efficiency, social mobility and economic opportunity will be driving the North American integration process. The cooperation between the newly established Northcom military command in the U.S., and in our military also reflects a North American exigence. Canada needs not only to engage, but to sort out how best to do so and on what critical dimensions its policy should be based.

The core nationalistic defence for the Free Trade Agreement in 1987, was the belief that Canada's quality of life, social programmes and genuine sovereignty depended on assuring the wealth creation associated with access to the United States marketplace in face of intense U.S. protectionism.

The argument Canada faces now is of a different kind. The integration of businesses, supply lines, energy markets, natural resource basins and financial services will continue and intensify. Does Canada wish to exert more influence on how this happens and what cultural, economic and social priorities are protected in this process, or do we wish simply to stand back and let others decide? 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. Mexico, Brazil and others are growing more economically positive and influential daily. It is absolutely vital that Canadians become part of a hemispheric reality fundamental to our wellbeing; to pretend otherwise is to put at peril the economic and social progress with which Canada and Canadians are rightfully associated.

And, here is the ultimate irony. Our present period of transition may not end up being an either /or proposition at all. Our withdrawal from the global middle power role may be temporary, as was our decision after World War II not to be part of the Berlin Airlift – despite the relatively large size of our airforce and navy at the time; a very few years thereafter Canadians were deeply committed in Korea as part of the UN police action, then, subsequently we committed to peace keeping, new

departure, with our Polish colleagues in the middle east, and to major development investment in India and the former Ceylon. So, the increased economic and political confidence a strong role in the integration of North America might afford Canada, would also be an impetus to use that strong regional economic and institutional base to rebuild our role as both a constructive and meaningful force in the larger world. Certainly, the economic dislocation produced by a failure of deeper integration in North America, would not enhance Canada's ability to invest abroad in any way shape or form.

What will this all mean in the politics and government of the next decade?

At one level, one can expect provinces and states working to build subnational trading and integration paths that maximise economic gain and social mobility. The "Bienvenue au Quebec" signs at the Ontario border are now in French, English and Spanish. Quebec and New York, the provinces and states of the western seaboard and their opposite numbers on the Atlantic seaboard can be expected to move at a pace faster than that of the federal government; with business moving faster than both. The rate of informal dollarization will increase with more and more Canadian companies operating and reporting exclusively in American dollars especially if capital requirements force them to be listed on U.S. stock exchanges. The evolution of a North American perimeter security-and by security I mean a range of policy areas from immigration, to disease control, to border management, to environmental protection will intensify.

The debate in the country will be about preparing for a role as an integrator of North American institutions in a fashion that replicates to some extent Canada's role in the establishment of the UN, the UN Human Rights Charter, Norad, The Land Mines Treaty, the Circumpolar Council, La Francophonie and NATO itself. Some, especially those who are members of the "blame America First" coalition, the Anti Globalization and other nationalist forces, largely the same forces who opposed free trade and Canadian deployments to both Afghanistan post September 11, 2001 and the Gulf in 1990, will be opposed to any regional focus that is about integration or the creation of new institutions. Others will simply be detached. Leadership on the issue may only come from provinces like BC, Alberta, Ontario, Quebec and the Atlantic region-which would notionally present on a population basis a serious majority of Canadians. The population is likely to be divided, as polling done on this issue some years ago has confirmed. Although, on the issue of a common currency it is noteworthy that public opinion about the inevitability of a common currency for all of North America has moved noticeably to the positive side of the ledger. And it is likely that business, especially the energy and natural resource sector, but also manufacturers and exporters, including the utilities, car companies, railways and aerospace sectors are likely to be very strong integrationists.

While Mexico's Vicente Fox has been an enthusiastic proponent of European style integration and institution building, Canada has been officially very subdued on this issue and there is no indication of American interest. But the issue is not what happens when the doors are not only closed but unlikely to open soon in Washington. The issue is how we prepare as Canadians for when they open. A newly re-elected Bush administration would be looking for other priorities beyond stability in the Middle East and the elimination of terrorist threats wherever and whenever possible; a newly elected Democratic administration, would also have trade on their minds. The growth of the Euro as a currency of reference will encourage those looking for greater influence for the American dollar. Energy security challenges will encourage deeper strategic integration of energy markets. Financial services firm will cross borders and grow on a North American basis as our railways

already have. There will be a moment of opportunity in the next decade just as there was in the Mulroney/Reagan decade. Not to be ready would be a criminal abdication of responsibility.

It is far better to prepare for an opportunity that is delayed or does not come, than to miss one that does come, through being unprepared.

As Canada moves to address internal and domestic priorities around health care modernization, addressing child poverty, modernizing and re-capitalising our armed forces, re-negotiating our equalization formula and updating our financial regulatory process, the context of North America and our role in it will continue to assert its importance. While election debates will not necessarily focus directly on this larger issue, the underlying context will be the North American driven questions that frame many social and economic issues:

-How, as Tom Courchene, my colleague at the IRPP has asked, do we maintain an east west social policy system when all economic ties and forces are north south?

-How do we maintain our own cultural industries when those industries need access to capital markets abroad, largely in the United States?

-How do we maintain our own currency when fluctuations with the US dollar cause volatility in profits and costs that are not over the long haul sustainable?

-How do we both integrate effectively with the defence of North America while maintaining our freedom to deploy militarily when necessary at home and abroad?

-How do we maintain massive daily exports over the Canada/US border when Americans have already indicated that "security trumps Trade" nine times out of ten-as ambassador Cellucci of the United States made perfectly clear at an IRPP breakfast in Montreal just a few weeks ago?

It is a complex environment. Six provinces, Nova Scotia, Newfoundland, PEI, Ontario, and Saskatchewan face elections in the next twelve months or so. Government changes are probable in at least two or three of those jurisdictions if not more.

Paul Martin is likely to take over the leadership of the Liberal Party in November and call an election by this time next year if not sooner. While a change of the party in power does not appear likely, Mr. Martin will be a very different Liberal Prime Minister than Mr. Chretien. Martin has already underlined enhanced defence spending and improving the relationship with the Americans as top priorities. The present administration denies we have a problem with the Americans; Mr. Martin takes the view that serious remedial action is necessary.

It is ironic that much of the financial cuts that diminished Canada's world presence were instituted by Mr. Martin as Finance Minister; and, while he would argue he had no fiscal choice, it is now his obligation to address the looming North American imperative and reflect on whether and how we engage at a more global level. He has thought about these issues, as head of the G20 Finance Ministers, and as one of the longest serving Finance Minister in the G8.

So, where this all leads is to a modern re-statement of the classic and core Canadian question: How will we manage our relationship with our largest customer, closest ally, and most dominant commercial and military force in the world? The usual answer is "carefully". Prime Ministers like Trudeau and Diefenbaker sought to build countervailing relationships to help tactically in that process-Trudeau with Europe and the so called non-aligned nations, and Diefenbaker with the British Commonwealth. Both failed dramatically. Pearson and Mulroney sought more direct engagement-Pearson through agreement on nuclear missiles and the autopact, and Mulroney through the Free Trade Agreement and lesser but important accords like the Acid rain agreement.

If I had to put Martin anywhere, and in this he would receive support from the Opposition Leader, Mr. Harper, I would put him in the direct engagement camp with Pearson and Mulroney.

I believe we are about to enter an interesting time of transition in Canada, with provinces like Alberta, BC and Quebec working to deepen integration with the United States with Ottawa as an anxious and conflicted but gradual ally.

This will be an important time in our history, potentially as important as the late 1980's if we have the courage to engage the Americans, after we first engage internally on the priorities that matter. This latter process is by no means automatic or predictable-and in that explicit detail the uncertainty about which path we ultimately choose will remain with us for some time yet.