March 24, 2003

Honourable Bill Graham
Minister of Foreign Affairs
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario K1A 0G2

Dear Minister:

Your initiative to undertake a review of Canada's foreign policy is timely and essential. It is serving as the catalyst for a long overdue policy debate across the country. As I thought about the process and the issues, I asked myself some questions about what should be the central strategic outcome. As I will argue in this letter, Canada's foreign policy should have more focus and therefore more depth in a select few relationships and issues. The relationships that I will paint as having overriding relevance and importance are those with the United States and China. Among the issues that warrant our undivided attention are the style of our diplomacy, support for more "human capital" in international economics and international relations and a closely reasoned redirection of our international-aid program.

I have been active in international affairs for nearly 40 years, beginning with a CUSO assignment in India, through university and NGO connections, and as Associate Deputy Minister of Finance in charge of international financial diplomacy. For most of that time, I have appreciated Canada's special role as an enlightened Western democracy and as a close friend and friendly critic of U.S. policies. In recent years, however, I have observed with regret a decline in Canada's international relevance and, more recently, a tendency to publicly lecture and criticize our neighbour at a time when Americans feel threatened as never before. The soft power initiative was a distinguishing characteristic of our foreign policy, but of marginal importance to the great issues of our time. Periodically, our elected leaders have sought to play a specialized or leadership role in international affairs. Time and again, however, they have lost credibility because they either left office or were forced to divert their energy into federal-provincial relations, Canada's policy "black hole".

In the past 30 years, events have reshaped the global environment into one that is ever more deeply interdependent. This growing interdependence changes the role of the nation state, creating new, focused opportunities for cooperation at the same time that the scope for autonomous action is reduced. The United States, Canada's closest ally has emerged as the world's only super power. The tragic events of September 11, 2001, however, drove home the realization that the openness that generates interdependence is also its greatest source of vulnerability.

Actions taken by governments throughout much of the post-war period have set the stage for growing interdependence. Western governments have dismantled most of the barriers to trade and FDI, freeing market forces to move goods, services and technology across borders. Since the 1970s, the macroeconomic revolution has also reduced the size of public sectors, balanced budgets and waves of privatization, stimulating FDI flows and cross-border acquisitions. Since 1989, the ending of the cold war propelled hungry new competitors from the transition economies into world markets.

Today, the information and communications technology (ICT) revolution is further transforming global linkages, making it possible to move capital across borders with ease and changing the way business is done so that production chains span the globe. Trade and FDI flows, particularly among neighboring economies, have been growing faster than the participating economies themselves. Intra-regional trade has exploded, helped along by trade agreements and rapid growth. Some of the metrics are well known. Since the FTA was implemented in 1989, Canada's trade with the United States has doubled. In 2000, 56 percent of the NAFTA economies' trade was intra-regional, compared to 62 percent in the European Union and more than 50 percent in East Asia.

FDI flows have also burgeoned. As production internationalized during the 1986/95 period, global FDI stocks grew to twice the size of gross fixed capital formation. The top 100

multinationals now control over 20 percent of global foreign assets. China is currently the top recipient of global FDI, much of it originating within East Asia.

The objective of the foreign policy review should be to redefine Canada's place in this new and changing world. Being an optimist, I look ahead and see key opportunities for Canada to play an international role that could make a difference, both for the world and for Canadians. For me, these opportunities imply that the review's output should have two strategic pillars. The first pillar is a more focused foreign policy and a long-run perspective. The second is a foreign policy with more depth; depth created and maintained by investing in Canada's intellectual resources that enlarge our understanding of the rest of the world, enable us to anticipate long-run trends, and assist us in preparing the country for these developments.

A more focused foreign policy would have four cornerstones. Two in particular, Canada's relationships with the United States and China, will be of critical importance during the next 25 years. In light of the changes in the international economy, our top priority should be to redefine our relationship with the United States. As I have written elsewhere, I believe we should define a common security-economic focus that reflects our respective priorities, while preserving our political independence and distinctiveness. Mexico should be included in this relationship where possible. We have a moral and political responsibility to further Mexico's economic development -- and we should also have no illusions about the growing importance of the Hispanic vote in futureU.S. elections.

Canadians will have to initiate any major redefining overture to the United States, in order to align our interests and preserve our distinctiveness. The private-sector initiative to inform Americans of the critical importance of their interdependence with Canada to their own future should be adopted and deepened by the public sector. Consider a couple of the most obvious facts: I am repeatedly amazed that very senior and otherwise well informed Americans have no idea that Canada is their single largest energy supplier. Few outside of the northern tier of states

are aware that the Province of Ontario alone is the third largest trading partner after Canada and Mexico.

Pursuing this priority has several dimensions. One is educating public opinion, which is currently polarized between shrill nationalism and uncritical support. Much more effort is needed to conduct a "smart" relationship, based on unbiased facts, that takes advantage of our valuable proximity to the world's largest and wealthiest market to lever Canadian strengths and distinctiveness. I will return to this issue. A related dimension is the "style" of our diplomacy. Too much reliance on quiet diplomacy has resulted in a perception in the rest of the world that Canada simply toes the U.S. line. Yet lecturing our friends in public can be counterproductive, as well..

The second cornerstone of Canadian foreign policy should be our relationship with China. I have spent much of the past decade studying the economic integration of the East Asian economies in collaboration with intellectual counterparts throughout the region and as a participant in four international policy and research networks. East Asia's economic emergence in the past 30 years has been dramatic. But China's decision to negotiate a free-trade agreement with ASEAN is a powerful signal of a new era -- an East Asian community is being born. There will be a painful transition and many adjustments on both sides. However, East Asians outside of Japan are shifting their angle of vision in a dramatic way and Beijing, not Tokyo, is likely to emerge as Asia's economic leader. At the same time, a not-inconsiderable group in the United States is determined to see China's emergence as a significant threat to U.S. hegemony -- and the likely cause of a future war. Canada has a unique standing in China, a status we have invested in consistently over many years. It is in our interest to understand China's expanding regional role and its eventual impact on world order.

The third cornerstone of Canadian foreign policy should be to lead initiatives and "set some tables" that help to shape the future Chinese-U.S. relationship. Relationships between Washington and Beijing may well set the tone for war or peace in the coming decades. Canada

should undertake the necessary bridge building to ensure that the outcome is a peaceful one. We should work with the Chinese on regional issues and on participation and leadership in multilateral institutions. We should make an effort to ensure U.S. participation in such processes. We are one of the few countries that can do this – both because of our historical friendship with the Chinese and because of current demographics. As much as 40 percent of Canada's annual immigration now originates in Beijing and Shanghai, with many Chinese Canadians having feet in both worlds.

The fourth cornerstone of Canadian foreign policy should be a focus on the world's poorest people. As someone who spent early years in my career in both CIDA and IDRC, I regret that the programs of both institutions have since become so politicized. Both have strayed from their original mandates to reduce poverty and promote innovation and capacity building in developing countries, to transferring resources to Canadian academics, consultants and businesses. Since they are now widely seen as instruments of foreign policy, let us now shift the focus of our foreign policy to coincide more directly with where both institutions can add value. Canadian aid is spread far too thinly, achieving nothing much as a result. The focus on Africa at the Kananaskis Summit, and the development of performance criteria for aid recipients, are steps in the right direction. In future, Canada should focus most of its aid on basic needs, primarily in the poorest countries that are prepared to reform, but also in failed or rogue states that still lack the institutions to do so.

I have not included Europe. Why? The fall of the Berlin Wall reduced the common security threat that has bound Europe and North America since the Second World War. Today, changing world events attract shifting ad hoc defense alliances. Further, Europe has not fulfilled its potential as a global growth pole and seems unlikely to do so anytime soon. Indeed, the latest demographic figures suggest that Europe as we know it will decline dramatically during the next 50 years. Thus, Canada's central focus for the foreseeable future should be the world's main growth poles, particularly its next-door neighbour.

These are four priorities in which we should make long-run investments. I will not extend this letter by commenting on our role in the international organizations. I do wish to stress, however, that an exclusive reliance on the United Nations to achieve our foreign policy goals is not only short-sighted, but it risks a complacency that reminds me of the free rider problem. Going forward, I believe that our foreign policy priorities should be reflected in more clearly defined functions in the international institutions.

My second major concern is about government support for the study of international economics and international relations. I believe it should be re-focused and significantly increased to enable Canadians to invest in building deeper international relationships and expertise. Our international aid program has become the major source of continued funding for international centers and universities, forcing them into narrow and shifting criteria and making unrealistically onerous administrative requirements upon them. Beyond that, ad hoc public investments are fired like grapeshot into a variety of institutions and foundations to serve passing political fancies. Do any of these existing institutions stand out as a resource of leading international caliber, producing clear strategic analysis or advice that is influential within Canada and beyond?

The Department of Foreign Affairs should reconsider its strategy for building and maintaining Canada's intellectual capital in international studies. I recommend serious consideration be given to a total restructuring of existing financing to create instead a competitive approach to funding university departments of area studies and interdisciplinary centers on the basis of periodic competitions in which proposals are evaluated in terms of the excellence and relevance of output and the efficiency with which it is produced. The centers of excellence funding programs of the federal government provide excellent examples of how to proceed with this strategy.

The Association of Universities and Colleges of Canada has expressed concern about the lack of a coordinated national strategy for international studies. Such a strategy is quite feasible, as other national examples attest. The Australian approach to research funding is one example. The Australians obtain much better mileage, quality and policy relevance out of their government-

academic connections than we do. In the United States, Title VI of the U.S. National Defense Act of 1958 has been the lifeline of international education in that country for the past 45 years. It finances 115 centers; its grants are matched by non-federal government funds and by foundations and corporations, providing invaluable leverage to the best institutions. Thanks to Title VI, thousands of knowledgeable Americans have international expertise and contacts that they would otherwise lack.

The extent of Canada's resource constraints on the international side has struck me repeatedly. The most obvious relates to the leavening value contributed to public debates by the objective analysis of scholars and think tanks. This is particularly true right now in the debate about the future of the Canada-U.S. relationship, not to mention the future of Canada's relationships with the Asian economies. On both issues, there is a supply constraint. The list of balanced commentaries from qualified academics on the Canada-U.S. relationship is a surprisingly short one. On the Asian side, the issue is both supply and demand. Despite Canada's increasingly Asian demographics, public interest in the available research on Asia is remarkably thin.

There are other examples of resource constraints and puzzling allocations of existing resources. For example, why do DFAIT officers spend resources on projects that duplicate what is already being done, or has been done, by Canadian academics? Why is the Canadian Institute for International Affairs so poorly funded that it cannot afford to bring international scholars to Canada for a Shadow G-8 meeting around a Canadian-hosted G-8 summit? Italy, Japan, and France all have generously funded CIIA counterparts that promote international intellectual exchange. Why must one of our centers of expertise on Latin America rely increasingly on business funding in order to move beyond the narrow CIDA funding criteria?

In closing, I would like to add that senior analysts of international economics and international relations in other major countries frequently comment to me about their hopes that Canada will return to its role (*which third countries cherish*) as an honest broker and an influential voice

with Americans. This role is more important than ever given the newly assertive U.S. role in the world.

We still have a choice. We can sidestep that choice and let our foreign policy continue its disheartening slide into international irrelevance, or we can make strategic long-term investments that focus our priorities and support deep and wise intellectual capital. These priorities go beyond political partisanship. They reflect, instead, an insightful and innovative internationalist view of the world's future that Canada can pursue for the next 25 years. In you, Canada also has the leader with the background, training and beliefs to make a difference, both inside and beyond government, on these urgent issues.

Yours sincerely,

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