

CANADA IN OBAMA'S WORLD: A CORK IN A STORMY SEA

Derek H. Burney

Barack Obama won an historic election to the American presidency on November 4, but the enormity of the economic challenges he faces is daunting, to say the least. In Canada, the Harper government, fresh off its own election in October, faces steep challenges of its own. As Canada's former ambassador to the United States makes clear, the "repercussions of the financial crisis are global," but "the pain for us and others will be greater if the US fails to act to put its economic house in order." President Obama, he suggests, "will have about six months to prove whether he is a Roosevelt or a Carter."



Barack Obama a remporté le 4 novembre dernier une élection historique à la présidence des États-Unis, mais les défis économiques qui l'attendent sont pour le moins titanesques. Au Canada, le nouveau gouvernement de Stephen Harper devra lui aussi affronter sa part d'exigeants défis. Car « les répercussions de la crise financière sont mondiales », comme l'affirme sans détour l'ancien ambassadeur du Canada aux États-Unis. Et elles seront « plus douloureuses pour nous et quelques autres pays si les États-Unis échouent à redresser leur économie ». Le président Obama, estime-t-il, « dispose de six mois pour montrer s'il a l'étoffe d'un Roosevelt ou bien celle d'un Carter ».

The foreign policy challenges and risks that we face are daunting. The global financial crisis, stock and commodity market gyrations and an impending deep recession are corroding the structure and traditions of international cooperation laboriously constructed over the last half-century. For a few weeks, it seemed as if we were watching a documentary of the Dirty Thirties. Economic nationalism flavoured by a strong whiff of *sauve qui peut* policy-making seemed to be the order of the day. The strongly nativist elements of the US bailout package, combined with what the *Economist* calls "beggar thy neighbour" rescues of their banks and depositors by some EU countries, including the once-lauded poster boy — Ireland — actually made the crisis worse. There may be some solace from the comment in the *Economist* that "in a sinking world, Canada is a kind of cork."

The international institutions that were supposed to prevent meltdowns in the global financial system proved to be totally supine. They were constructed to prevent the kind of mess we confronted and help us through the unpreventable ones. The credit crunch is grim. Repercussions are spreading globally. No country is immune.

The Bush administration had difficulty getting its act together with Congress and seems still to be groping for a prescription that will inject some stability into markets and bring a degree of confidence in the public, but we are left wondering whether those in charge actually know what they are doing. The remedies to date tend more to paper

over the cracks, and with taxpayer money! The root causes are systemic and some root canal surgery may be required. Those who thought that greed would be self-correcting or that models of quantitative analysis were foolproof are no doubt disillusioned. But confidence about new prescriptions and about those in positions of responsibility is scarce.

There is little comfort to be taken from the fact that, after weeks of dither and delay, a coordinated approach is beginning to emerge. In my view, this is inspired as much by a feeling that we had better hang together or we will hang separately as by an inherent conviction that coordinated action is better than unilateral measures. The G20 Summit in mid-November was commendable, but the timing for effective US leadership could not have been worse. As President-elect Obama himself pointed out at his first news conference after the election, on November 7 in Chicago, the United States has only "one president at a time." And he will not be taking office until January 20, after the lame-duck session of Congress, which will presumably pass additional short-term stimulus legislation in addition to the \$700-billion bailout of Wall Street already authorized by Congress. The next president has also made clear he wants some relief for the middle class and those in danger of losing their homes.

There is not much credibility left for the Bush administration on any topic. Nonetheless, meetings of the G20 or G7 offer opportunities for sensible reforms to international

economic governance. But, as Paul Masson of the Rotman School of Management contended in the *Globe and Mail* on October 27, while the prospect of broader macro-coordination is appealing and would, to some extent, be useful, we need to recognize that “the causes of the current crisis

The international institutions that were supposed to prevent meltdowns in the global financial system proved to be totally supine. They were constructed to prevent the kind of mess we confronted and help us through the unpreventable ones. The credit crunch is grim. Repercussions are spreading globally. No country is immune.

squarely rest with national regulatory authorities — in particular those in the United States.” However, a collective embrace, like the prospect of a hanging, may lead to needed actions and disciplines on a national scale.

Canada is well placed to inject some balance into these discussions. Our fiscal and regulatory situations are healthier than those of many others. When urging collective action, we have to be ready to be part of the solution. We also need to calibrate our suggestions prudently to reflect our own interests and the relative strengths of our own situation. One-size-fits-all remedies are not the best answer nor is the *dirigiste* model advocated by some in Europe. There is genuine scope for reform to counter excesses and abuses. But the problems of risk management are systemic and some countries were more flagrant offenders than others. The need for closer surveillance, more transparency and so on is an issue on which all can agree but, mindful of the experience with Sarbanes-Oxley, we should never assume that more regulatory process will deliver the desired result. Balance and good judgment should be the driving forces.

Even before the collapse of the bankers' house of cards, there was abundant evidence that several quarters of recession lie ahead that will bite into domestic production and employment and stoke protectionist pressures. We need to worry that the political courage necessary to resist the

siren calls of the protectionists is in short supply. Heaven help anyone who thinks that the World Trade Organization will provide a robust defence against an outbreak of protectionism. Do I need to mention Doha or Canada's implacable defence of supply management to the exclusion of

any other Canadian interest?

Not a good performance to date on any standard by most democratic governments — individually or collectively. Not that the more authoritarian models have done any better.

But if there were ever a time to revisit and reform the architecture of global economic governance, it is surely now. Institutions designed in the mid 20th century are demonstrably not up to the current challenge. Technology and globalization forces move markets with lightning speed. Institutions mired in process and out-dated voting structures simply cannot keep pace. When the Benelux countries have greater voting weight at the IMF than China, you know something is out of kilter.

Most disappointing to me has been the flabby performance of the G7, a structure that was created to make up for the weaknesses of existing institutions and to provide a semblance of macroeconomic coordination among the major global economies. Summits have drifted too much into fads of the day or the hobbyhorse of a given host. Adding Russia at one level and several others at another has only diluted the necessary focus on the original purpose. If it is not too late already, the G7 should get back to first principles and move away from a trend that has featured more process and photo ops than results. Otherwise, leaders should allow it to be subsumed by a more credible,

hopefully more effective, G20 or something between the two.

The mood in the US should be deeply worrisome to all of us. At the tag end of the most unpopular administration in a generation, if not more, Americans are sour, pessimistic and convinced that the US is on the wrong track — 85 percent thought so in a *New York Times* poll published on the weekend before the November 4 election. There is widespread resentment of the billion-dollar bailouts for the Wall Street “fat cats” while the homes and jobs of millions of Americans remain in jeopardy. The new administration and Congress face excruciating and politically painful choices to correct the debilitating imbalances in economic governance and corporate and personal behaviour. The recession will only make these choices harder. There will be plenty of pain to go around but we need to understand that the pain for us and others will be greater if the US fails to act to put its economic house in order.

President Obama will have about six months to prove whether he is a Carter or a Roosevelt. I expect that he will find that enhanced Democratic control of both the House and the Senate will not be much of an asset. (More likely to stimulate a frenzy of scapegoating.) In fact, the honeymoon that the new president should enjoy may prove remarkably short-lived. Expectations will be as overwhelming as the challenges he will face — domestic and global. In his victory speech, he prudently tried to manage expectations down, by warning that while “change has come to America,” it may not be achieved “in one year or even in one term.”

Geopolitically, the unravelling of the post-Second World War settlement, namely the Cold War, continues to produce disagreeable and distracting surprises. Perhaps the most significant is the transformation of the Soviet Union from a nuclear-armed ideological rival, to a friendly if somewhat chaotic Russian bear, to a new/old Russia pursuing its ancient

imperial agenda. To date the Western policy has been to invite Russia into our clubs like the G7 and the WTO, to ignore Russian anxieties about being surrounded by NATO and to huff and puff when Russia flexes its muscles, as it did in Georgia. We need to worry that NATO, our first line of defence in the Cold War, is showing its age. That is certainly the case in Afghanistan.

NATO needs an exit strategy from Afghanistan. Whatever happens in that unhappy country, the war increasingly constitutes an existential threat to NATO. It is patently unreasonable and unsustainable that a select few NATO members do the heavy lifting while the others avoid the fight. The strains on the alliance are certain to grow as the war becomes more difficult. As retired General Lew MacKenzie observed earlier this year: "Who would trust NATO to come to their rescue in the future, when people are screaming for additional thousands of troops...and there are 800,000 soldiers sitting on their hands at home in other NATO nations doing nothing, other than training?"

If, as we expect, the new US administration substantially increases its military commitment, this will rapidly become an American war and NATO's influence will decline. But it is time to start asking some serious questions. What purpose does NATO serve if it cannot muster the resources necessary to fulfill a UN mandate, which it embraced? If NATO fails in Afghanistan, where can it succeed? It may be time for Canada to examine the relevance and importance of this kind of NATO to Canada.

What is evident to me is that a solution in Afghanistan is unattainable without a more coherent strategy on Pakistan. I know that the US and the UK each have bilateral agendas of a higher order with Pakistan than that, to some extent, blur their focus and effort on Afghanistan. But what is Canada's position and what are we doing to inspire greater coherence in the collective effort on Pakistan?

So far I have painted a pretty gloomy picture but there are opportunities for creative Canadian diplomacy rooted in our national interest and backed by the necessary material and political resources. Striking postures and prattling about values won't cut much ice with the new US government and will fail the test of relevance and influence. We need to keep our interests front and centre.

While some may take comfort in the humbling of the US, only Canada's inveterate anti-Americans can take satisfaction in seeing our neighbour in such trouble. The overhyped talk among the pundits about the death of the American market economy model is twaddle. It would be a gross error to underestimate the resilience of Americans and their power of recovery. The economy's inherent strengths of innovation and entrepreneurship and its world-class education system make it still a country to be envied. The prospect of an alternative superpower or even a collective of powers to replace American leadership is illusory.

The most serious threat to Canada's well-being would be a severe bout of US protectionism, aggravated by a shrinking export market as a recession takes hold. An America First approach to policy-making in the administration and from a more Democratic Congress is a real possibility. We need to remind our-

We need to remind ourselves and the Americans that Canada remains the closest economic partner of the US. Canada is the largest export market for the US. Our industries have become so closely intertwined that, as Stephen Blank of the Centre for International Governance Innovation points out, we don't trade things, we make them together.

selves and the Americans that Canada remains the closest economic partner of the US. Canada is the largest export market for the US. Our industries have become so closely intertwined that, as Stephen Blank of the Centre for International Governance Innovation points out, we don't trade things, we make them together. We need to leverage creatively our importance as a secure

energy supplier to the US and establish a common position on climate change. Canada's economic fundamentals, especially the strength of the financial system and solid public finances, give us a voice that we should use judiciously in working with the US. Our role can be one of helpful friend and a source of practical advice.

Carleton University has launched a project to define a Canada-US agenda that covers a select range of critical issues in the relationship, including border management, the energy/environment nexus, the Arctic, and defence and security, where there are common interests between the two countries. We have scheduled a conference in December where the results of this work will be discussed. A publication will appear in the new year. We intend to propose an agenda that will provide mutual benefit, addressing issues in need of coherence and common sense, whether it is the imbalance between security and access at our border or the lack of commonality on energy and the environment, where we need solutions that reflect and respect our interdependence.

It is critically important in our view that Canada present such an agenda to the new administration at the earliest opportunity. The Harper government wasted no time following the election of Barack Obama in proposing a bilateral North American agreement on cli-

mate change, as well as three major points that all figure on the new president's agenda: the economy, energy and the environment, and global security, including Afghanistan. In my experience, the best way for Canada to engage the Americans is to take the initiative with big ideas, as we did on free trade and acid rain. A separate but equally persistent engagement with the



CP Photo

President-elect Obama and President Bush walking towards the Oval Office of the White House in November. Bush called the G20 summit to deal with the global financial crisis, and Obama made it clear that the US has only “one president at a time.” But it will be Obama who finds these unresolved problems on his desk in January. Derek Burney writes that he will have only about six months to prove whether he’s a Franklin Roosevelt or a Jimmy Carter.

new congressional leadership would also be timely. It may be audacious for any Canadian government to believe that it can exercise influence in Washington. And there is no guarantee that we would receive a constructive response to our agenda. The new president and the Congress will have a full plate of demands — domestic and global — and issues with Canada will not feature prominently or automatically. The first challenge, therefore, will be to get Washington’s attention — demonstrating in compelling fashion why common sense solutions to common problems offer tangible value to both countries, especially at a time when the US economy is struggling.

It is not really relevant, however, to worry about whether or how the US may respond until we know, more precisely, what it is we intend to propose and whether we are prepared to commit the necessary political capital to attract and sustain US attention. What is certain is that if we do little by way of preparation, we will not get far in breaking down barriers to sensible reforms.

One thing we need to do is to put away any notion that we can make progress only trilaterally. Mexico has a very different bilateral agenda. Let the US and Mexico pursue it. Do not let the ephemeral search for trilateral solutions to bilateral issues get in the way of pursuing sensible solutions to Canada-US

priorities. As Mackenzie King might have put it, “Trilateralism where necessary but not necessarily trilateralism.”

After decades of monitoring and contributing to the management of the Canada-US relationship, I have learned that careful, consistent cultivation of a more constructive, common sense relationship with the US should be our overriding foreign policy priority whether we like it or not. Neglect or differentiation may be more comforting politically at times but can be counterproductive to Canadian interests. I also know that this priority needs to be complemented by a broader approach to foreign policy with elements that Canadians can see as distinctively theirs.

Because of all our neuroses about “living alongside the elephant,” this may in fact be an essential corollary to balance what most acknowledge is the need for prudent management of relations with the US. Canadians want to see their government doing something distinct on the world stage, something with which they

One thing we need to do is to put away any notion that we can make only progress trilaterally. Mexico has a very different bilateral agenda. Let the US and Mexico pursue it. Do not let the ephemeral search for trilateral solutions to bilateral issues get in the way of pursuing sensible solutions to Canada-US priorities. As Mackenzie King might have put it, “Trilateralism where necessary but not necessarily trilateralism.”

can identify and which is differentiated to some extent from what the US is doing.

This “something” may involve a more substantial commitment in the Americas or a concerted approach to reform of some international agencies that proved so inadequate to deal with the gravest financial crisis faced in many years. It might well be the Arctic, where Canada has serious security, environmental and commercial interests. Other countries are asserting their often conflicting interests in the Arctic, and the Harper government has already signalled the promise of new patrol ships, bases and an icebreaker, all to assert and defend Canada’s sovereignty. Is there scope for more?

I know that the government attaches at least a rhetorical priority to our own hemisphere — the Americas — but where’s the beef? What are we doing and how does it serve Canadian interests? A good start, of course, would be to adopt the trade agreements already negotiated with Colombia and Peru.

Is our aid policy being recalibrated to reinforce a priority for our own hemisphere? I wonder, more generally, whether our development assistance policy and programs might be designed to resonate better with Canadians about what we are doing, where and why. The philosophy underpinning our effort is undoubtedly commendable in some cir-

cles and the extensive bureaucratic procedures may be unavoidable but the impact on the Canadian public seems negligible as, it would seem, is the link to our foreign policy. You have to ask yourself why.

The Middle East is a region with much diplomatic quicksand, and critics claim that Canada has prejudiced its

opportunity for influence of late by abandoning its traditional position of balance or nuance in favour of a policy that is perceived as more pro-Israel than the position of some Israelis. Is there merit behind this allegation? What I do know is that a successful Middle East peace agreement — one that guarantees the security of Israel while giving the Palestinians the legitimacy of their own homeland — would be the best antidote of all to extremist Islamic terrorism. Support for this objective should, therefore, be the cornerstone of Canadian policy. We also have growing economic interests in the region that warrant careful nurturing. The litmus test for our policy in the Middle East — or elsewhere for that matter — should not be increasingly meaningless votes at the United Nations. These are, at best, sideshows in another mid-20th-century institution whose relevance is increasingly questionable.

We also need a clear-headed analysis of our interests vis-à-vis China, how they can best be defended and promoted. There is a pervasive sense of drift and disconnect in the relationship and no evidence that either country has a vision, a plan or a priority for it. Let me underscore that this is a responsibility for both parties, not just one. We need a similarly straightforward analysis of what kind of China we would like to see in 10 to 20 years and ideas on how Canada

might influence that evolution, recognizing that our capacity for influence is selective, at best. Spare me the simplistic and inaccurate notion that “we need them more than they need us.” That is not a basis for any rational policy.

I would extend this point by emphasizing the need for careful analysis, as well, of Canada’s objectives with the other major Asian powers — India and Japan. Few give George W. Bush credit for anything these days but his opening to India is certain to have long-term, potentially positive implications. The interplay among the three — China,

India and Japan — and their respective relations with the US are likely to be critical for the next decade. How and whether Canada plays at all in this evolving scenario should be assessed by the best minds our foreign policy community can muster. And not just the economic dimension. Here, too, we need to be selective, calibrating our influence against clearly defined objectives.

We could learn a bit about relations with all three from Australia. Without the luxury of geographic links with anyone, Australia is obliged to search for relevance and influence. We tend more to complacency, nurturing our primary link to the US in a somewhat ad hoc fashion, with moments of indulgence and despair, while avoiding consistent focus elsewhere.

The repercussions of the financial crisis are global and many see the economic centre of gravity in the world shifting inexorably to Asia — not Europe, incidentally. In my view, Canada’s attention and foreign policy priorities should be flexible and nimble enough to adapt sensibly to changing circumstances and give real vigour to the “cork”!

Derek H. Burney, former ambassador of Canada to the United States from 1989 to 1993, is senior strategic advisor to Ogilvy Renault and chairman of the board of Canwest Global Communications Corp.

DEMANDEZ :

Combien de nos collectivités dépendent de l'industrie canadienne des produits forestiers?



300

L'industrie canadienne des produits forestiers ne fournit pas seulement des produits de bois et de papier de grande qualité. C'est aussi le pilier économique de quelque 300 collectivités au Canada et elle emploie plus de 300 000 Canadiens d'un océan à l'autre.

Ainsi, plus notre industrie est concurrentielle et prospère, plus l'économie canadienne l'est aussi. **Pour en savoir plus, visitez fpac.ca.**



Association des produits
forestiers du Canada
fpac.ca