

TOWARDS A NEW NATIONALISM: CANADA AND FREE TRADE

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Abstract

Canada has historically been both attracted to and suspicious of the United States. While closer relations have promised greater economic benefits, Canadians have long been wary of the influence wielded by Americans by virtue of their size and power, as well as a crusading sense of nationalism. Hence free trade, while economically attractive, has been rejected on no less than five occasions in Canadian history.

However, despite the emphasis placed on autonomy by nationalists, Canada has from its very inception drawn closer to its only neighbour. Trade with the Americans steadily displaced British trade, a trend accelerated by the Second World War. The war brought Ottawa and Washington into particularly close cooperation, and the emergence of the United States as the leader of the Western alliance in 1945 further solidified their relationship. NATO and NORAD went a good distance toward integrating continental defence, while bilateral trade mounted, boosted further by the signing of the Auto Pact in 1965.

Yet, even in the face of such cooperation, the nationalist impulse in Canadian politics has remained strong. Diefenbaker's pledge to divert 15 per cent of Canada's trade with the United States to Great Britain echoed Canadian concerns about their dependence on the U.S. and was clearly antagonistic to American interests, as were the string of highly nationalistic policies enacted under Trudeau.

Autonomy has become more difficult to achieve, however. The global economy has become increasingly competitive, while the post-1945 liberal trading order no longer seems capable of ensuring open world markets. The relative decline of the United States evident since the mid-1960s, combined with the rising importance of regional trade blocs and the economic success of Japan and the NICs, acted to undermine the liberal trade regime established in the wake of World War II. No longer willing to trade off economic gains for security goals, Washington, beginning with the "Nixon shocks" of 1972-73, turned to

protectionism. Trade issues became crucial to the formulation of foreign policy, while states became increasingly vulnerable to the actions and policies pursued by others.

The rising importance of trade to virtually all countries, due in large part to the post-war liberal trade regime, thus led to an increasing politicization of trade issues. The declining utility of force as an effective tool of foreign policy, given by the development of nuclear weapons and the ineffectiveness of conventional weapons demonstrated in Vietnam and Afghanistan, has heightened further the importance of economic issues. The traditional distinction between the "high politics" of security considerations and the "low politics" of economic issues has, for many states, been erased. Increasingly states are faced with trade-offs between security and economic values.

This increased concern with economic values is evident in Canada's decision to pursue free trade with the United States. The sacrifices entailed in a nationalist political course have become more expensive both because of the rise of protectionism in the United States, and further because the intrinsic value of national economic performance has risen. The trade-off between autonomy and wealth long recognized in Canadian politics remains, yet the value of affluence has increased. Indeed, Canadian nationalism has come to be defined increasingly in terms of Canadian performance in the world economy.

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Chapter One

INTRODUCTION: AUTONOMY AND WEALTH

The central issue in Canadian-American relations turns on safeguarding the viability and political integrity of the nation-state in a situation of close and growing interdependence.

Abraham Rotstein (1973)

The nationalist impulse in Canadian politics has been strong and has traditionally been expressed in terms of autonomy from the influence of the United States. "Canadian national life can almost be said to take its rise in the negative will to resist absorption in the American republic."¹ Historically, the United States has posed the greatest single threat to Canada's existence as a sovereign entity, while the Americans have offered the possibility of greater economic prosperity to Canadians through access to the richest market in the world. Security has traditionally required a measure of autonomy from American influence, while the United States has always provided a strong economic attraction to Canadians. As gaining access to the American market has usually involved making reciprocal concessions, the possibility of forming a free trade area with the United States has been strongly opposed by nationalists on the grounds that such an arrangement would inevitably erode Canadian political autonomy and national security as the economy became an extension of its American counterpart and thus Ottawa a satellite of Washington.

1. S.D. Clark, "The Importance of Anti-Americanism in Canadian National Feeling," *Canada and Her Great Neighbour*, ed. H.F. Angus (Toronto: The Ryerson Press, 1938) p. 234.

The ideals of nationalism have become increasingly difficult to maintain, however. National independence from a wide range of foreign influences and transnational processes has been eroded by rising interdependence, particularly among industrialized states. A dramatic growth in the means of transportation, communication, and exchange of goods, money and ideas has allowed for unprecedented interconnectedness among societies, while liberal economic theory has provided justification and incentive for rapidly growing international transaction rates. State autonomy, central to traditional conceptions of international politics, has been sharply curtailed by pressures originating outside national boundaries. Indeed, in the modern world, the autarky described by realists and advocated by nationalism no longer seems a realistic representation nor a viable option.

The post-war liberal economic order fashioned by the United States, with Canadian cooperation, represented a deliberate attempt to avoid the nationalistic, protectionist policies which were identified with the war. Under the auspices of the General Agreement on Tariffs and Trade (GATT), tariff rates have gradually been revised downward, while international trade flows have increased markedly. As all industrialized countries have become increasingly reliant on exports, trade issues have gained greater prominence in the formulation of foreign policy. Further, with the acceptance of Keynesian economic principles and the massive growth of the state following the Second World War, economic issues in general have acquired greater political significance. Also, largely due to the advent of nuclear weapons and the effective means for their delivery, the incidence of violence among industrialized states has decreased. Hence the "low politics" of economic issues have come to challenge the traditional prominence of security issues on the foreign policy agenda. The result, as Richard Cooper has pointed out, is that trade policy has become central to the formulation of foreign policy.²

2. Richard Cooper, "Trade Policy is Foreign Policy," *Foreign Policy* 9 (Winter 1972-73)

At the same time, the relative decline of the United States has left the liberal economic order without clear leadership. No longer willing or able to sacrifice economic gains for strategic goals, the United States has become increasingly sensitive to a recurrent balance of payments deficit and has reacted by shielding American producers from what is deemed to be unfair foreign competition. The success of the Japanese and the Newly Industrialized Countries (NICs) in penetrating American markets, as well as the rising importance of regional trading blocs, led by the European Community, have left Americans feeling exposed. The result has been to foster an upsurge in protectionism particularly threatening to Canada. "An undeclared trade war is in progress. With 30 per cent of our national income involved in foreign trade, we, of all countries, are in really serious, difficult trouble... we must do something to protect our markets."³

Access to the American market has become crucial to the Canadian economy, while a declining liberal trade regime and rising American protectionism threaten to isolate Canada further. The burden of autonomy has thus become increasingly difficult to bear. The possibility of negotiating a liberal trade agreement with Washington has therefore appeared increasingly attractive in Ottawa, despite the historic reservations of Canadians about drawing too close to the United States. On September 5 1985, the Royal Commission on the Economic Union and Development Prospects for Canada, otherwise known as the Macdonald Commission, produced its \$20 million report, its major recommendation being for free trade with the United States. On September 26 1985, Prime Minister Mulroney announced that he had spoken that day to President Reagan "to express Canada's interest in pursuing a new trade agreement between our two countries." He promised further that "political sovereignty, our system of social programs, our commitment to fight regional disparities, our unique cultural identity, our special linguistic

3. Richard Lipsey in "Free Trade: Sell-Out or Necessity?" *The Whig-Standard Magazine* March 14, 1987. p. 9.

character -- these are the essence of Canada. They are not an issue in these negotiations."⁴

Despite the assurances of Prime Minister Mulroney, it is apparent that a more liberal trading arrangement with the United States will result in further American influence in the lives of Canadians. The trade-off between autonomy and wealth long recognized in Canadian politics remains. What has changed, as the willingness to negotiate a free trade deal with the Americans indicates, is the extent to which Canadian leaders are willing to forgo autonomy in return for economic benefits. Independence and security from the United States, historically powerful motivators in Canadian politics, are no longer as appealing, while an expanding economy has become increasingly crucial to Canadians.

History

Free trade with the United States has been a recurring theme in Canadian history. The repeal of the Corn Laws by the Peel government in Great Britain, signaling the end of the system of colonial preferences, left Canada's chief exports to the United Kingdom exposed to competition from American producers and provided the impetus for serious talk of reciprocity in the provinces of Upper and Lower Canada. Since that time Canada has on at least five separate occasions contemplated the formation of a free market with its neighbour to the south. Free trade has promised access to the enormous and hugely wealthy market provided by the United States, thus offering Canadians the prospect of increased prosperity which would likely result through the rationalization of the Canadian economy. Yet reciprocity has also been seen by many Canadians as threatening to Canadian nationhood.

4. Cited in David Bercuson, J.L. Granatstein, W. R. Young *Sacred Trust? Prime Minister Mulroney and the Conservative Party in Power* (Toronto: Doubleday, 1986) p. 265.

The removal of the Canadian economy from the protection offered by the old colonial system, combined with a worldwide recession in the late 1840s which witnessed an accelerating rate of bankruptcy in the Canadian provinces along with an escalating public debt, led to a call for reciprocity and even talk of annexation. In 1849, the Legislature of Upper and Lower Canada passed an act offering reciprocal free trade to the Americans, a gesture which remained unanswered in Washington. Yet when the British introduced a policy of protecting the Atlantic fisheries in 1852-53, a positive demand for reciprocity emerged in the United States among fishing interests, lumber buyers, Great Lakes traders, and from members of the Democratic administration. In addition, many of the Northern states saw reciprocity as eventually leading to annexation, a process which would swamp the South with anti-slavery states.

The result was the Reciprocity Treaty of 1854, which provided for the reciprocal free admission of major natural products, including grain, lumber, coal, livestock, meat and fish. The treaty did increase trade between the two countries markedly, or so contemporaries believed.⁵ Trade and transportation links began to develop as Canadian and American businessmen dealt with each other with increasing frequency. Yet the balance of payments was not always favourable to the Americans, and when the British began to allow raiders from the South the use of Canadian territory during the Civil War, the Americans gave notice of abrogation of the treaty, and reciprocity ended in March 1866.

The abandonment of reciprocity by the Americans helped to lead the British North American provinces to Confederation which seemed, on economic grounds, the only resort. Yet the new Dominion of Canada soon tried to secure a new reciprocity treaty. In 1874 the Liberal government of Alexander Mackenzie worked out a draft treaty with the

5. It is difficult to tell for certain since the worldwide depression which had preceded the treaty was followed by an upsurge. See J. L. Granatstein, "Free Trade between Canada and the United States: The Issue That Will Not Go Away," *The Politics of Canada's Economic Relationship with the United States*, ed. Denis Stairs and Gilbert R. Winham (Toronto: University of Toronto Press, 1985)

administration of President Grant, but the agreement stalled in the Senate and eventually died. Finally, the government of Sir John A. Macdonald, returned to power in 1878, turned to protection. Although Macdonald's National Policy was strongly nationalistic, it was motivated, in part, by a desire to get the Americans to negotiate. The Americans, Sir John argued, "will not have anything like reciprocity of trade with us unless we show them it will be to their advantage... It is only by closing our doors and by cutting them out of our markets that they will open theirs to us."⁶ Yet the National Policy proved to be a powerful tool in nation building. In 1891 the Liberals campaigned unsuccessfully for reciprocity; it would not be the last time Canadians would reject closer economic relations with their southern neighbours.

Another chance at reciprocity was not very long in coming. In 1911 the Laurier government reached an agreement with the United States which provided for free entry for agricultural products to the American market and substantial concessions on farm machinery entering Canada. Yet in the election of September 1911 the Conservatives, led by Robert Borden under a banner of "no truck or trade with the Yankees," defeated Laurier's Liberals, killing the agreement. While the death of reciprocity in 1911 was in substantial measure a victory for Central Canadian business interests protected by the National Policy, it also represented a victory for nascent Canadian nationalism.

Canadian unease with close economic relations with the United States has been expressed on numerous subsequent occasions in Canadian history. America's emergence from the Second World War as the clear leader in the world economy combined with Canada's close economic and political relationship with Washington fostered during the war provided Ottawa with another opportunity for free trade with the United States. The war had shifted Canada's economic focus. "The British market was increasingly less important to Canada and the American more so. British investment counted for less and

6. Cited in Granatstein, "Free Trade between Canada and the United States," *The Politics of Canada's Economic Relationship with the United States*, p. 17. This logic, ironically, is identical to that employed by advocates of protectionism in the United States.

less, and American for more and more. New York, not London, had become the financial centre for Canada."⁷ In 1948 secret negotiations began toward a free trade arrangement, and a deal was worked out whereby Canada was granted virtually free access to the American market on most goods immediately, and allowed Canadian manufacturers five years to prepare for free trade. Although it appeared, even at the time, a singular opportunity to link Canada on favourable terms with the American economy, Mackenzie King refused the offer. Despite the urging of advisors, King saw economic union with the Americans as a political mistake. He would not be known as the Prime Minister who sold out to the Yankees.

•

Throughout the 1950s Canadian trade with the United States boomed, displacing commercial exchange with other countries. In 1955, 60 per cent of Canadian exports were bound for the American market and 73 per cent of its imports originated in the United States.⁸ Coming to power in 1957, Diefenbaker pledged to divert 15 per cent of Canada's trade with the United States to Great Britain. While it was clear that the promise could never be fulfilled, Diefenbaker's concern with Canadian reliance on the American market was widely shared. When in the early 1960s the British applied for admission to the European Economic Community, the Diefenbaker government protested strongly, fearing that Western European economic unity would serve to further increase reliance on the American market. The pressure to draw closer to the Americans was not ignored by Diefenbaker altogether however, and in 1958 Canada secured American agreement to a defence production sharing arrangement, offsetting the heavy purchases made by the Canadian forces in the United States and tacitly acknowledging Canadian reliance on American military technology for its defence.

7. Granatstein, "Free Trade between Canada and the United States," *The Politics of Canada's Economic Relationship with the United States*, p. 36.

8. Cited in Jock A. Finlayson, "Canadian International Economic Policy: Context, Issues and a Review of Some Recent Literature," *The Politics of Canada's Economic Relationship with the United States*, ed. Denis Stairs and Gilbert R. Winham (Toronto: University of Toronto Press, 1985)

Canadian economic links with the United States again became a major issue in the late 1960s and early 1970s. Although Canada took a step toward economic integration in signing the Canada-United States Automotive Products Agreement in January 1965, which provided for essentially free trade (albeit with certain production safeguards) in the automotive and automotive parts industries, the election of the Liberal Trudeau government in 1968 brought new concerns about the extent of American investment in the Canadian economy and Canadian reliance on American markets. This concern was reflected in what have been tagged the most nationalist policies since the National Policy -- the Canadian Development Corporation in 1971, the Foreign Investment Review Act in 1973-74, Petro-Canada in 1975, the cultural protectionist measures in Bill C-58 in 1976, and the National Energy Program in 1980.⁹

The clearest statement of Canada's impulse to distance itself from the United States at this time came in response to the ten per cent surcharge on imports by the Nixon administration in August 1971, part of the so-called "Nixon shocks", which led to the writing of the "Third Option" paper.¹⁰ In it the Trudeau government explicitly rejected closer economic relations with the United States as an alternative for Canadian trade policy, and settled instead on the "third option"; to reduce reliance on the United States by looking elsewhere for markets. The failure of the third option to balance Canada's trade reliance on the Americans once again opened the free trade debate.

9. Kim Richard Nossal, "Economic Nationalism and Continental Integration: Assumptions, Arguments and Alternatives," *The Politics of Canada's Economic Relationship with the United States*, ed. Denis Stairs and Gilbert R. Winham (Toronto: University of Toronto Press, 1985)

10. Canada, Department of External Affairs, *Foreign Policy for Canadians* (Ottawa: Minister of Supply and Services, 1973)

The Price of Autonomy

The nationalist impulse which has pervaded Canadian history has extracted a cost. In choosing to do business along east-west lines rather than following the natural north-south axis of continental trade, Canadians have forfeited economic efficiency in the interests of political integrity. Legislation designed to increase Canadian ownership or control, such as enacted by Trudeau between 1971 and 1980, has been passed at the expense of foreign investment in the Canadian economy, while protective tariffs have fostered inefficient industry. Yet the trade-off between national autonomy and national welfare has long been recognized, and Canadians have traditionally shown themselves willing to bear the price of independence from the United States. As Charles Doran points out, "While the economic nationalist argument has always admitted that the cost of less U.S. trade and capital is a lower Canadian standard of living, this cost is viewed by some as justifiable if it leads to greater political autonomy."¹¹

The saw-off between autonomy and wealth has shifted, however. In the first place, national economic performance has become more important to all states as government has come to play a larger role in economic management. The growth and acceptance of the welfare state has greatly increased the economic burden of government as the state has undertaken a wide range of responsibilities formerly considered to be strictly private concerns. Hence employment, health and general economic welfare have come to be regarded as falling within the sphere of the state. Secondly, in a world of interdependence, amalgamation, and homogenization, the economic cost of independence has risen substantially. Excluded from secure access to any significant markets, Canadian producers are likely to lose ground in an increasingly competitive world market, unable to achieve the economies of scale necessary to compete successfully. The incentive to secure access to the American market has therefore increased, particularly in light of rising

11. Charles F. Doran, *Economic Interdependence, Autonomy, and Canadian/American Relations* (Montreal: The Institute for Research on Public Policy, 1983) p. 9.

American protectionism, which threatens not only expanded trade, but existing trade links as well.

While the price of a free trade arrangement with the United States in terms of Canadian autonomy is not yet clear, it is evident that any agreement will significantly increase American access to the Canadian economy and thereby expand U.S. influence in Canadian affairs. In entering into bilateral negotiations, Canada is particularly vulnerable to pressures which might be brought to bear by Washington. Indeed, while trade with Canada is significant to the United States, accounting for some 22 per cent of U.S. exports and 20 per cent of its imports in 1984, it is not nearly as dependent on such trade as is Canada, which relied on the United States to purchase 76 per cent of its exports that year.¹²

In order to counter the bargaining power wielded by the United States, Ottawa has generally favoured a multilateral approach as the most effective means of protecting Canadian international commercial interests. There is a growing perception, however, that existing structures, most notably the GATT, are no longer efficient in solving current disputes or opening new markets. This is due in part to the past success of the GATT in removing the most obvious barriers to trade, leaving the more complex issues of non-tariff barriers to be dealt with.¹³ The growing significance of regional trade blocs, particularly the European Community, has further served to undermine the principle of non-discrimination, central to any liberal trade order. Indeed, a successful free trade deal might further this trend by creating yet another preference area, albeit without the positive integration which has marked the EC. The effectiveness of the GATT has also been undermined by the decline in the relative economic power of the United States, which has left the global trading system without clear leadership and called into question the American commitment to truly liberalized trade.

12. Cited in Michael M. Hart, *Canadian Economic Development and the International Trading System* (Toronto: University of Toronto Press, 1985) p. 38.

13. See I.M. Destler, *American Trade Politics: System Under Stress* (Washington: Institute for International Economics, 1986) p. 48.

The current protectionism, particularly visible in Washington, is symptomatic of broader trends which threaten to render world markets even more inaccessible. While the increased salience of economic issues to virtually all states and the success of the post-war liberal trade regime have resulted in an international order highly dependent on trade and capital flows, a by-product of this dependence has been a growing politicization of trade issues. Interdependence has produced a permeability of political boundaries such that domestic policies in one state are increasingly relevant to other states and the foreign policies of all countries have greater domestic impact than previously. Nowhere is this permeability greater than with regard to economic issues, and as a result economic concerns have come increasingly to dominate the foreign policy agenda, particularly in industrialized states. These changes call into question the traditional preoccupation of international relations theory with the problem of war and the military capabilities of states. Indeed, among developed nations, economic issues are increasingly at the core of international disputes as trade flows have become crucial to the operation of modern societies.

The Free Trade Dilemma

The historic dilemma faced by Canadian policy-makers remains, yet it has been brought into sharper relief. Liberalization of trading relations with the United States may be necessary not only in order to expand the national economy, but to maintain access to the American market and ensure the performance of Canadian industry in an increasingly competitive global market. Thus free trade may be necessary to maintain Canada's standing in the world economy as an economically advanced country. At the same time, technological developments in the transmission of ideas and capital have magnified the homogenizing effects of transnational economic, cultural and political flows. Removing the barriers to such influences is likely to threaten the cultural and political integrity of the state. Yet the value of economic welfare has increased for many states as government has

been called on to play a larger role in economic management. Nationalism is increasingly understood in economic terms, and national economic performance taken as the measure of statehood.

The decision in Canada to pursue free trade with the United States, it is the contention of this paper, reflects these broad changes in the nature of states and of the international system. Removing the barriers to continental trade promises to expand the national economy and to streamline Canadian production, thereby renewing Canada's global competitiveness. Yet liberalizing economic flows between Canada and the United States will entail a significant sacrifice of Canadian autonomy. Given the relative power of the American economy and the size of its market, Canadian political, social and cultural differences would be hard-pressed to survive in the face of unfettered trade and investment flows. Eliminating restrictive trade legislation will inevitably turn attention to other forms of market distortion, most of which relate to the activities of government. Since Canadians generally accept a more active role of government in society than do Americans, Canadian social welfare and regional assistance programs, among others, are likely to be seen by Americans as unacceptable under a free trade arrangement. Further integration with the American economy is therefore likely to result in greater American influence in Canadian affairs.

The pursuit by Canada of a formal trade agreement with the United States thus represents a change from traditional notions of nationalism which stress the desirability of state autonomy in favour of an understanding of the world in which an interdependence of states is a given reality of contemporary life and national economic performance the measure of Canada's success in the international environment. Such an understanding represents a significant shift in Canadian thinking, as Canadians have long been suspicious of American influence and valued their autonomy even at considerable economic cost. This is not to say that Canadians have lost altogether their will to remain distinct from the United States -- the intensity of the debate generated by the trade negotiations

with Washington attests to the continued unease Canadians feel at the prospect of greater continental integration -- but rather that national wealth has become more important than formerly and autonomy less so.

The shift in the autonomy-wealth trade-off is representative of a broader trend in world politics which challenges the traditional assumptions of international relations theory, particularly realism, in explaining the motivations and behaviour of states. The dominant theoretical approach since the end of the Second World War, realism focuses on the problem of war and stresses the primacy of power, understood largely in military terms, in defining international relations. Economic considerations are relegated to the realm of "low politics", only relevant to the realist vision in as much as they contribute to power ends. This view has been challenged by what are broadly termed "liberal" thinkers, who have stressed the growing importance of linkages among states, particularly in the economic sphere, and the declining utility of force in relations among the majority of industrialized countries. Indeed, for many states, economic issues have come to rival the traditional foreign policy concerns of power and security. Since dependencies tend to foster vulnerabilities, state security has always required a large degree of autonomy, and as economic performance demands relatively open trade and capital flows, policy makers are forced to make trade-offs between economic and security issues. Such is the dilemma for Canadian policy makers in choosing to pursue a comprehensive liberal trade agreement with the United States.

Chapter Two

THEORETICAL PERSPECTIVES

While some may argue that we have organized a field called international relations/politics because the phenomena are 'there'; the truth is that we study them because of a deeply held normative concern about the problem of war.

K.J. Holsti (1985)

The phenomena of war has traditionally occupied the focus of international relations theorizing. From Thucydides to Rousseau to Morgenthau, the problematic, while approached differently, has remained constant. The so-called "great debates" of the discipline have revolved around *how* to look at international relations, rather than *what* is being looked at. The dominant paradigm since the Second World War, and drawing heavily on the experience of that debacle, realism has retained the traditional concern with the phenomena of war. For Hans Morgenthau, the dean of the realist school, the question of what is being studied is a straightforward one: "All history shows that nations active in international politics are continuously preparing for, actively involved in, or recovering from organized violence in the form of war."¹

The centrality of war to the study of international relations has more recently come into question, most obliquely in the work of radical analysis inspired by Marxist constructs (which would include dependencia, centre-periphery and world-systems

1. Hans J. Morgenthau, *Politics Among Nations*, 5th ed. (New York: Alfred A. Knopf, 1973) p. 36.

analysis), as well as by what might broadly be described as "liberal" literature. While those of the radical camp reject altogether the notion that war is the motivating force in international politics, liberals have questioned the primacy awarded to strategic/security matters in realist thought. That international theory should revolve nearly exclusively around the international states system and the activities of the great powers, especially as they relate to war and peace, is no longer an article of faith in either academic or government circles. "The challenge to the classical tradition comes," notes Kal Holsti, "not from scientific activity, but from scholars and practioners whose *normative* priorities differ fundamentally from those inhabiting the classical tradition."²

The challenge to the realist school stems in large part from changes in the international environment since its ascendancy. The contemporary world is, in many important respects, different from that which emerged from the Second World War. Security from armed confrontation, once the preponderant concern of virtually all states, is now rivaled by economic considerations as the primary motivator of foreign policy making among the majority of advanced industrialized countries. The development of strategic nuclear weapons and the realization of their full implications has rendered warfare, at least between the superpowers and their respective alliances, all but obsolete as a useful instrument of foreign policy. At the same time, the growth of global interdependence in various dimensions has further raised the potential cost of armed conflict.

The very nature and role of states has changed dramatically in the post-war years. The modern state is expected to manage the national economy, redistribute wealth, provide health care and education and perform a myriad of other tasks to ensure the economic, political, and cultural welfare of its citizens. The economic affairs of the state have thus gained enormous stature as a consequence of this recently acquired intrinsic political significance as well as the burgeoning commercial interdependence in the relations among developed countries. Finally, the configuration of the international system has changed.

2. K. J. Holsti, *The Dividing Discipline: Hegemony and Diversity in International Theory* (Boston: Allen and Unwin, 1985) p. 39.

The United States, once economically and militarily preponderant in the post-war order, is today faced with a Soviet military capable of balancing American might, while Japanese and European firms compete successfully with the Americans for worldwide markets. The result has been a breakdown in the liberal economic consensus responsible for the rapid expansion in international trade following World War II, accompanied by the politicization of trade issues and the rising threat of protectionism.

These changes call into question the continued relevance of the traditional concerns of international politics to modern statesmen. The realist distinction between the "high politics" of security considerations and the "low politics" of economic issues in particular seems to deviate from present practice. If, as E.H. Carr remarked, "theory does not (as the utopians assume) create practice, but practice theory,"³ then realism might properly be subject to revision. The question is, how useful is a theory of international politics preoccupied with the politics of power and the possibilities of war in a world where power is increasingly difficult to define and war is less and less a viable option?

The evolution of realist thinking, the advent of "neorealism" or "structural realism", has to some extent been successful in addressing the difficulties encountered by the original in the face of a changing international environment. Yet the fundamental tenets of the realist tradition remain intact, with the focus on security considerations, while largely ignoring the economic dimension of international politics. However, the separation of the economic from the political in the study of international relations would appear an increasingly untenable construct if theoretical notions are to be a useful guide to understanding and practice in the international political arena.

This is not to say that questions of power and security have been rendered irrelevant, for clearly the economic and political well-being of the state are contingent upon its continued existence. Yet in an increasingly interdependent world, the notion of security itself has changed. No longer can the modern state insulate itself from the influences of

3. E. H. Carr, *The Twenty Years Crisis: An Introduction to the Study of International Relations* (London: MacMillan, 1939) p. 63.

the international environment in order to enhance national security. Economic and technological considerations play an increasing role in maintaining the integrity of the state and require a relatively free flow of goods and ideas. The distinction drawn by realists between high and low politics no longer reflects that quality realists have long claimed to capture -- reality. In relegating economic matters to the realm of low politics realists have not only assigned such concerns a secondary role in their theoretical vision, but have largely ignored the relevance of non-security issues altogether. Yet increasingly the viability of the modern state is dependent upon economic considerations. Thus the low politics of economics have become merged with the high politics of security issues. Faced with finite resources, policy makers are forced to make trade-offs between considerations of security and economic welfare.

The Realist Paradigm

In the immediate post-war period, realism came to dominate the study of international politics as the answer to idealism which was apparently unable to explain the anomaly of the Second World War. The war effectively shattered the idealist notion that a harmony of interests between states was being brought into line with perceived interests through increased international cooperation demonstrated by the growth of international law, the creation of the League of Nations, and increased cultural, social and economic links.

Realism represents, at one level, a philosophic rejection of idealism as possessing an unrealistically optimistic understanding of human possibilities; what has been termed "thinking on wishing." Realists claim a scientific status in that realism is supposedly governed by objective laws having their roots in human nature. "This theoretical concern with human nature as it actually is, and with the historic processes as they actually take place, has earned for the theory presented here the name of realism,"⁴ boasts Hans

4. Morgenthau, *Politics Among Nations*, p. 4.

Morgenthau, whose *Politics Among Nations* (1948) has come to be regarded as the definitive work of realist theory.

While a concern with the world "as it actually is" captures the broad philosophic orientation of the realist school (with the obvious implication that other perspectives are lacking in this quality), it hardly provides a clear means of demarcating it from its competitors. As Robert Tucker has observed, "If a concern with reality, a commitment to see things as they actually are, is the principal mark of political realism, it is hardly a very distinctive one."⁵

At its core, realism contains three assumptions. First, nation-states and their governments are the most important actors in international politics. Second, there exists a fundamental distinction between domestic and foreign policy, and third, international politics is primarily about the inter-state struggle for power. Indeed, for Morgenthau, "the main signpost that helps political realism find its way through the landscape of international politics is the concept of interest defined in terms of power."⁶ The struggle for power is not, for the realist, a means to some further end such as security or freedom, but is an end in itself. In the realist conception states are maximizers of power. Power itself is defined almost exclusively in terms of military power, as economic issues are relegated to the realm of low politics, significant only in so much as they represent "capabilities" to be mobilized for power ends.

The assumption that states act so as to maximize their power has, however, proven problematic for realist thinkers. In the first place it belies the lesson that realists drew from the Second World War -- that states had not acted to maximize power but were dangerously legalistic and moralistic in their approach to international politics. Further, realist thinking was unable to account for much international behaviour in the post-war era. Given that power was defined almost wholly in military-strategic terms and states

5. Robert W. Tucker, "Political Realism and Foreign Policy," *World Politics* 13 (April 1961) p. 461.

6. Morgenthau, *Politics Among Nations*, p. 5.

seen as power maximizers, international politics was understood by realists as a zero-sum enterprise, making international cooperation (with the exception of military alliances) all but impossible. Indeed, for the realist autarky represented the natural state of the international environment, since collaboration tended to raise the vulnerability of the state, and constrained its ability to act in the national interest. Yet cooperation in the international realm was evident, particularly involving economic issues. Such successes as the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF) and the World Bank demonstrated the possibility of cooperation not prompted entirely by strategic or security motivations. While realists considered such behaviour to be peripheral to the primary function of states, economic issues were clearly gaining relevance to the statesmen of the day. While prompted by security considerations, the formation of the European Community took on far greater importance as an economic entity than as a military one, as the failure of the European Defence Community and the success of the EEC were to illustrate.

The foundations of realist thinking have remained largely intact however, and continue to exert considerable influence in the current literature on international relations. Particularly influential has been Kenneth Waltz's *Theory of International Politics* (1979), which has served to renew the realist tradition while at the same time attempting to address the inadequacies of conventional realist theories in explaining the behaviour of states in the 1960s and 1970s. The three assumptions of realist thought outlined above remain largely intact, with the exception that the struggle between states is understood less in terms of power and more in terms of security. Indeed, for Waltz the only common aim of all states is the survival of the state itself. Perhaps more fundamentally, structural realism represents a shift from what Waltz describes as a "second image" to a "third image" model.⁷ As the name suggests, structural realism is concerned with the impact of the international structure (third image) on states and issue areas, rather than with states

7. See Kenneth Waltz, *Man, the State and War: A Theoretical Analysis* (New York: Columbia University Press, 1959)

themselves (second image). For Waltz, the international system acts as a constraining and disposing force, and thus states operating within such a structure will tend to produce outcomes that fall within expected ranges. "Structures limit and mold agents and agencies and point them in ways that tend toward a common quality of outcomes even though the efforts and aims of agencies vary."⁸

For structural realists, therefore, the possibilities for collaboration and cooperation are contained in the nature of the international system rather than in the motivations and intentions of states. Beyond a survival motive, the aims of the state may be endlessly varied, yet outcomes will be constrained and motivated by the structure of the international system.

Since structural realism places less emphasis on the role of power, particularly military power, than does conventional realism, as well as allowing for an almost infinite range of motivations on the part of states (save that they desire to survive), the prospects for cooperative arrangements amongst states, economic or otherwise, would appear to be enhanced considerably than is the case under strict realist assumptions. Yet the constraints provided by the international structure, in particular the operation of the security dilemma, continue to make collaboration difficult and stress the need for state autonomy.

While structural realism is able to accommodate international cooperation as long as it is not threatening to the security of any states involved (directly or indirectly), the nature of the international system is such as to render those occasions rare. Because the international system is characterized by anarchy, it is necessarily a system of self-help. As Waltz points out:

8. Kenneth Waltz, *Theory of International Politics* (New York: Random House, 1979) p. 74.

To achieve their objectives and maintain their security, units in a condition of anarchy -- be they people, corporations, states, or whatever, -- must rely on the means they can generate and the arrangements they can make for themselves. Self-help is necessarily the principle of action in an anarchic order. A self-help situation is one of high risk -- of bankruptcy in the economic realm and of war in the world of free states.⁹

Because self-help situations are of such great risk, and because cooperation often entails risk, the chances of cooperation in such situations are reduced considerably. Indeed, in a condition of anarchy, maximum autonomy is the most secure strategy for a state to follow, since collaboration is likely to raise dependence and vulnerability.

Added to the high risk associated with systems of self-help is the security dilemma: many of the means by which a state tries to increase its security decrease the security of others. Because international relations is widely viewed in zero-sum terms, any move toward complete security by one actor will stimulate reactions which raise the level of threat in proportion to measures taken. Thus, in situations where the security dilemma is acute, the chances for collaboration will be minimal. The security dilemma is obviously most severe in those areas where the state is most vulnerable, yet because state security may be linked to political and economic issues as well as strategic ones, the security dilemma is often pervasive. Within such a system, where the use of force is a constant possibility, considerations of economic gain are subordinate to those of security.

Although seemingly better able to accommodate evidence of international cooperation, structural realism has retained the normative orientation of its predecessor. The pragmatic approach to international politics espoused by Morgenthau is reflected in the work of Waltz and tends to objectify the realist position. Morgenthau claims for realism a "realistic" understanding of human nature "as it actually is", while Waltz offers a positivistic view of theorizing in political science. Thus, for Waltz, the measure of any theory lies in its power to explain reality.¹⁰ A theory is not properly discredited by analyzing the accuracy of its underlying assumptions, nor can a theory be disproven on

9. Kenneth Waltz, *Theory of International Politics*, p. 111.

10. Kenneth Waltz, *Theory of International Politics*, ch. 1.

empirical grounds alone. Rather, a theory may only be overthrown by a better theory, that is, a theory which is better able to explain or predict reality. As Richard Mansbach and Yale Ferguson point out, however, theoretical debates among political scientists reflect differing normative commitments through competing claims over which authors should be studied, which level of analysis is most appropriate, which variables are critical, and which issues are most pressing.¹¹

The difficulty is that how one sees reality is very much dependent upon which normative lenses are being used. Realism came to dominate the field of international relations at the end of World War II because, according to realists, Western leaders in the interwar period had deprecated power in favour of legal and moral solutions to the problems of their time. In so doing the idealists had confused theory with practice and confounded normative with scientific analysis.¹² Yet there is little reason to believe realists could have fared any better. While for the most part the statesmen in question were aware of the balance of power as a concept, such an understanding provided little in the way of policy prescription. Further, Morgenthau himself is unable to offer any reliable measure of power. Thus, while history revealed to the realists, as it did to the idealists, the mistakes of the interwar statesmen, there is little reason to believe realist thinking would have proven more successful in averting the war. Indeed, that factor for which interwar statesmen were least able to account, the motives and personality of Hitler, who did not behave according to the dictates of balance of power thinking, is equally baffling to realists.

The point is that theorizing in political science does not move forward in the same sense that it does in the natural sciences, but rather reflects the normative concerns of those who engage in it. While realists are frequently accused of amorality, their apparent pragmatism only thinly veils a clear set of moral and prescriptive rules which the official

11. Richard Mansbach and Yale H. Ferguson, "Values and Paradigm Change: The Elusive Quest for International Relations Theory," paper for the 26th annual meeting of the International Studies Association, Washington D.C., March 1985. p. 4.

12. Mansbach and Ferguson, "Values and Paradigm Change," p. 6.

decision makers of the day are to follow in seeking to serve the national interest. Likewise, neorealism sets out constraints within which policy-makers must operate in fulfilling the national interest. Of course, as numerous critics have pointed out, the concept of 'national interest' is so vague that its interpretation cannot but involve a highly subjective judgment.

What leads to a shift in political dialogue has less to do with the evolution of political theory, as Waltz would have it, or the appearance of anomalies, than with a change in the normative temper of an era. Thus the preoccupation of realism with the value of security may be understood as reflecting the experience of World War II; a preoccupation manifest in the overriding salience of a single issue following that conflict, the Cold War. "Having emerged from a catastrophic conflict that had been inflicted by the aggressive behavior of a small group of dissatisfied and expansionist actors, publics and governments were ready to embrace policies and theories that focused upon the prevention of war through strength."¹³

New Perspectives

The world of today is in many respects different than the one which gave rise to realism. The United States is no longer clearly preponderant. Militarily its capabilities are offset by those of the Soviet Union, while economically the American share of the world market continues to be eroded by Europe, Japan, and the Newly Industrialized Countries (NICs). The utility of American military power has been called into question in, among other places, Vietnam and Iran, while Soviet forces continue to be bogged down in Afghanistan. The specter of nuclear annihilation has changed the very conception of war, thereby altering that problem to which international relations has traditionally addressed itself. The primacy of military power has further been undermined by the increased importance accorded to welfare issues in all states. The responsibilities of modern

13. Mansbach and Ferguson, "Values and Paradigm Change," p. 20-21.

government have been extended to include a whole range of functions previously left in private hands. The result has been to saddle the state with economic and welfare burdens, with the consequence that economic performance has become far more crucial than previously. Finally, the Second World War is now more than forty years in the past, and the hostilities of the Cold War have been blunted by a decade of detente, both of which have undermined the normative appeal of power politics.

The twenty years immediately following World War II were marked by the global domination of the United States in both economic and strategic terms. Although the United States lost its monopoly on nuclear weapons in 1949, it managed to retain a clear preponderance of nuclear forces until the end of the 1960s, a capability brought to light during the 1962 Cuban Missile Crisis. The enormous power of the United States in international affairs provided an unusual degree of stability and order in global economic relations as well as allowing American foreign policy unprecedented freedom of action. Dominant in the world economy, the Americans remained paradoxically insulated from it. The United States had the ability, as well as the willingness, to trade off its external economic interests in order to further its major foreign policy objectives, the most important of which was the containment of the power of communist regimes. This was evidenced in the late 1950s when the United States actively promoted European economic integration despite the fact that the formation of the European Community harmed American export prospects in Western Europe.¹⁴

The Nixon surcharge of 1971, coupled with a number of other measures to restrict the flow of American dollars abroad, signaled the arrival of a more nationalistic and protectionist style of American foreign economic policy. American organized labour, abandoning its traditional liberal economic stance, openly embraced protectionism, putting pressure on legislators, particularly of the Democratic Party, to adopt a similar attitude.

14. Jock A. Finlayson, "Canadian International Economic Policy: Context, Issues and a Review of Some Recent Literature," *Canada and the International Political/Economic Environment*, ed. Denis Stairs and Gilbert R. Winham (Toronto: University of Toronto Press, 1985) pp. 21-22.

The deterioration of the competitive position of the U.S. economy meant that American policy makers were less willing to forgo economic interests for the sake of broader foreign policy objectives. "Trade and trade policy concerns would henceforth carry greater weight in the thinking of both the executive branch and even more so of Congress."¹⁵

The economic decline of the United States mirrored a decline in its relative military power. The Strategic Arms Limitations Talks (SALT) acknowledged Soviet parity in strategic nuclear capabilities, while the Vietnam war called into question the effectiveness of conventional American military force. Perhaps even more importantly, the easing of Cold War hostilities in the late 1960s and 1970s weakened Western consensus in the military sphere and undermined American leadership of the Atlantic Alliance. By the mid-1970s the hegemony of the United States in the international system showed every sign of coming to an end.

The decline of the global influence of the United States has been identified by several analysts as responsible for a breakdown in the post-war liberal economic consensus. Charles Kindleberger views the existence of a hegemon as a requisite, if not sufficient, condition for open world trade. In order for the world economy to be stable, it needs a stabilizer; a country that would undertake to provide a market for distress goods, a steady flow of capital, and a rediscount mechanism for providing liquidity when the monetary system is in panic.¹⁶ No longer willing or able to forfeit economic gains for security goals, American policy makers have become increasingly concerned with the politics of domestic wealth and welfare. The result has been the erosion of the globalized trading arrangement presided over by the United States since the end of World War II and a dissolution of the barrier between economic and political issues. As early as 1972, in an article entitled "Trade Policy is Foreign Policy," Richard Cooper foresaw the consequences of a decline of the liberal trading order:

15. Jock A. Finlayson, "Canadian International Economic Policy," *Canada and the International Political/Economic Environment*, p. 48.

16. Charles Kindleberger, "Dominance and Leadership in the International Economy," *International Studies Quarterly*, 25. p. 250.

The breakdown of the old coalition in support of liberal trade, and of the failure to replace it with a new one or by a persuasive rationalization for the present state of affairs, is likely to result not only in more protectionism of a clear and straightforward kind, but also a greater intrusion of foreign trade issues into general foreign relations.¹⁷

The increased sensitivity of the United States to foreign trade issues is not particularly surprising given its changing position in the world economy. The American share of world exports dropped from 22 per cent in 1950 to 10 per cent in 1980, while exports as a proportion of U.S. gross national product rose from about 5 per cent to 10 per cent over the same period.¹⁸ The increasing reliance of the United States on global trade is hardly unusual. While between 1960 and 1983 world national production grew at the unprecedented rate of 5.5 per cent per annum, over the same period world trade grew at an average rate of about 8 per cent.¹⁹ Clearly the multilateral trading institutions founded in the wake of World War II have proven successful in reducing the risks of protectionism and isolationism by encouraging the evolution of an open world trade and payments system. The twin pillars of the GATT and the IMF, dedicated to the establishment of a liberal multilateral order based on the free flow of goods and services, and on convertible currencies that would permit multilateral settlement of accounts, have affected profoundly the global trading and political environment.

The success of the liberal trading order since 1945 has not come without cost, one which the United States, by virtue of its enormous economic and military strength, felt last. Indeed, the Americans sacrificed little in return for access to international markets since the war had effectively shattered the economies of its former competitors. Yet it was logically inescapable that the creation of strong multilateral institutions in the interests of liberalized trade would entail some sacrifice of national autonomy. "An international

17. Richard Cooper, "Trade Policy is Foreign Policy," *Foreign Policy*, 9 (Winter 1972-73) p. 31.

18. Canada, Royal Commission on the Economic Union and Development Prospects for Canada, *Report of the Royal Commission on the Economic Union and Development Prospects for Canada*, vol. 1 (Ottawa: Minister of Supply and Services, Canada, 1985) p. 225.

19. Cited in Richard G. Harris, *Trade, Industrial Policy and International Competition* (Toronto: University of Toronto Press, 1985) p. 1.

economic system based on specialization and the free flow of goods and services imposes restrictions on each country's right to pursue its own particular goals and policies."²⁰

As trade and investment flows have increased in response to liberalization, the sensitivity of national economies to international events have risen. High interest rates in one nation affect interest rates and exchange values in another country; high exchange values create pressures on trade balances; and falling trade balances can expand problems of international debt. As Edward Morse points out, the creation of interdependencies among societies has resulted in the externalization of domestic policies and the internalization of foreign policies. "The two are linked not only by the general characteristics of interdependence, whereby predominantly domestic policies have recognizable external effects, but also by the creation of policy instrumentalities that are used for the attainment of both domestic and foreign goals."²¹ The distinction between domestic and foreign policies has become difficult to maintain in all but the most abstract sense because political and nonpolitical interactions take place across societies at high levels and because transnational phenomena are so significant that territorial, political, and jurisdictional boundaries are extremely difficult to define.

A clear result of this growth in interdependence has been the erosion of state autonomy. The high mobility of capital and technology combined with an increasingly competitive world market has had a strong homogenizing effect on policy. Interest rates, taxation levels, and social welfare policies, to name only a few, are bound to effect the costs of production in a given country and thus its competitiveness in the international economy. Relatively high levels of taxation are therefore likely to result in an exodus of capital and a decline in standards of living. As Richard Cooper points out, "interdependence, by joining national markets, erodes the effectiveness of [domestic]

20. Canada, *Report of the Royal Commission*, p. 281.

21. Edward L. Morse, *Foreign Policy and Interdependence in Gaullist France* (Princeton: Princeton University Press, 1973) p. 13.

policies and hence threatens national autonomy in the determination and pursuit of economic objectives."²²

The inability to distinguish clearly between domestic and foreign policy issues has been accompanied by a decline in the utility of force as a principal tool of foreign policy. Most significant in this respect has been the development of nuclear weapons and the effective means for their delivery. Although atomic weapons had come into existence in 1945, their full impact would not be realized for some time. The rapid development of nuclear technologies in the 1950s and 1960s led to new capabilities and limitations. The development of ICBM forces, the submarine launched ballistic missile, hardened silos and the general proliferation of nuclear weapons amongst the superpowers, all contributed to a changing conception of warfare where both offensive and defensive capabilities had evolved to a point where neither side seemed sufficiently invulnerable to withstand the destruction which could be inflicted by the other in the event of an all-out nuclear confrontation. The Soviet attainment of strategic nuclear parity with the Americans underlined the vulnerability of the United States and, indeed, of the entire planet. The nuclear era rendered war, at least involving the superpowers, irrational.

The irrationality of full-scale war has been added to by the development among advanced states of multiple relationships of dependence, or what Robert Keohane and Joseph Nye have referred to as "complex interdependence".²³ Situations of complex interdependence are characterized by three major traits. First, multiple channels connect societies. These channels include in addition to interstate relationships assumed by realists, trans-governmental and transnational relations. Second, the agenda of interstate relationships consists of multiple issues that are not arranged in a clear or consistent hierarchy. Third, military force is not used by governments within the region or on those issues where complex interdependence prevails. Force is not seen as a viable policy when

22. Richard Cooper, "Economic Interdependence and Foreign Policy in the Seventies," *World Politics* 24 (January 1972) p. 164.

23. Robert Keohane and Joseph Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown and Company, 1977)

conditions of complex interdependence prevail because within those areas or over those issues interstate, trans-governmental or transnational linkages are mutually beneficial and the use of force would threaten profitable relationships. Keohane and Nye maintain that, particularly among industrialized, pluralistic countries, the perceived margin of safety has widened and consequently the utility of force has diminished. Indeed, as Bruce Russett points out, there has been a marked decline in the use of force between advanced states in the post-war era:

The absence of interstate war is indisputable, and by fairly early on in the postwar era even preparation for, and expectation of, war among capitalist countries had diminished nearly to the vanishing point. By the end of the 1950s one could say with reasonable confidence that a "security community" or "stable peace" had been established everywhere in the OECD area, even between traditional enemies.²⁴

The decline in the utility of force between industrialized states has been matched by an increase in the relevance of economic issues to the modern state. Particularly since the end of World War II, the state has undertaken a whole range of responsibilities previously considered to be private concerns. Management of the economy, health care and education, the redistribution of wealth and even the provision of employment have become important to governments of virtually all states as welfarist policy objectives have become central concerns of the contemporary state. Increasing interdependence among states, particularly in the economic sphere, has meant further that economic relations have increasingly become the focus of international politics.

A result of these and other changes in states and the system of states has been the formation of alternative conceptions of the world which reflect a differing normative orientation. Richard Rosecrance sees the world as moving away from the "political-military", in which states compete for primacy in terms of power and territory, toward a "trading world".²⁵ The trading world is composed of states differentiated in terms of

24. Bruce Russett, "The mysterious case of vanishing hegemony; or, is Mark Twain really dead?" *International Organization* 39 (2) (Spring 1985) pp. 215-216.

25. Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (New York: Basic Books, 1986)

function, as opposed to the realist conception which sees states as differentiated only in terms of their relative power capabilities. Each may seek to improve its condition, but because nations supply different services and products, in defence as well as economics, they come to depend on one another. As with complex interdependence, the incentive to wage war is absent in such a system, for war disrupts trade and the interdependence on which trade is based. In a similar vein, Edward Morse argues that the increased salience of economic issues, combined with increased interdependence has led to a requirement for increased international cooperation in order to attain domestic policy goals. "If in an earlier period cooperation took place in a primarily conflictual context, now, under the impetus of modernization, conflicts among states tend to take place increasingly in a context which is primarily cooperative."²⁶

The costs of cooperation may be high however, at least in traditional terms. While further increases in interdependence are likely to raise the costs of war between industrialized states, state autonomy is bound to suffer. As nations increasingly depend on products, funds, and even security contributed by other states, it becomes harder to solve national problems by strictly national means. The preservation of the independence or external sovereignty of individual states is, according to Hedley Bull, a fundamental goal of the international order. What any particular state hopes to gain from participation in the "society of states" is recognition of its independence from outside authority, and of its supreme jurisdiction over its subjects and territory. In return for such recognition, the state must give recognition of like rights to independence and sovereignty on the part of other states.²⁷

The shift toward a trading world seen by Rosecrance implies a decline in the independence of states in return for greater economic benefits. Since trade cannot operate in the face of heavy restrictions, tariffs, exchange controls, quotas, restraints (voluntary or

26. Edward Morse, *Modernization and the Transformation of International Relations* (New York: The Free Press, 1976) p. 85.

27. Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (London: The MacMillan Press, 1977) p. 17.

involuntary), competitive devaluation of currencies and other instruments which act to limit the amount of trade among nations will have to be dispensed with. A trading system is thus likely to exact, at the very least, a certain basic social or governmental cost. Since opening one's trading and financial centres to foreigners gives them access and a role in the economic outcome in one's own country, it is not a step lightly taken. The dilemma faced by policy makers is therefore acute, and involves a normative choice between differing visions of the world:

A government may wish to foster political integration in those areas where interdependence is high; or it may wish to restrain further growth in interdependence, perhaps even at the cost of hindering the achievement of fundamental domestic goals. The first option is made difficult to accept since it requires that the government give up aspects of sovereignty, never an easy thing to do. The latter option is, however, equally difficult, in that it would weaken the government's legitimacy by causing a growth in public dissatisfaction with governmental performance.²⁸

Conclusions

It is difficult to argue that the normative concerns expressed in realist literature are no longer relevant to the contemporary international order. For a significant number of states, even some advanced industrial nations (Germany and Israel, for instance), considerations of power and security remain paramount. However, for many other countries, economic and social welfare concerns have come increasingly to dominate the policy agenda. In an age where the very legitimacy of the state may be linked to its ability to provide for its citizens, national economic performance has become a priority for virtually all governments. At the same time, at least among the majority of industrialized countries, the threat of armed confrontation has receded. The potential for global annihilation brought about by the development of nuclear weapons has rendered the use of force, at least on a large scale, incredible. More limited uses of force, such as in Vietnam

28. Edward Morse, *Modernization and the Transformation of International Relations*, p. 125.

and Afghanistan, have proven ineffective in attaining foreign policy objectives. Power, it would seem, may not be measured simply by assessing military capabilities.

The utility of force has been further eroded by a growth in interstate, trans-governmental and transnational relationships. These linkages among societies have flourished in the liberal trading order established in the wake of World War II. In virtually all industrialized countries, foreign trade makes up an increasing share of Gross National Product (GNP). In fact, the value of world trade in 1980 reached some \$2,000 billion (U.S.), a sixfold increase in real terms since 1950, while the proportion of goods and services which crosses national boundaries has more than doubled, from 11 per cent of world output in 1950 to 21 per cent in 1980.²⁹ The increase in international transactions has worked to inhibit the use of violence among states with mutually beneficial relations. As welfare issues have increased in importance and as foreign trade has made up an increasing share of GNP in most states, the value of international trade and the interdependence on which it is based has also grown. Thus, while traditional security concerns have diminished, at least for most industrialized states, a new emphasis has been placed on what Morse has termed economic security. In order to assure the stability of government, modern policy makers must ensure the continual economic growth of the state, particularly as demands on the state increase.

The shift in the normative concerns of international politics implied by a focus on economic issues further entails a change in the conduct of foreign policy. To adopt a vision of the world in which states are truly interdependent is to reject traditional assumptions about the value of state autonomy in favour of economic welfare. The liberalization of trade and investment which has occurred since the Second World War, largely under the auspices of the GATT and the IMF, has succeeded not only in multiplying international trade flows, but has further resulted in political constraints on those states which have

29. Canada, Department of External Affairs, *A Review of Canadian Trade Policy: A Background Document to Canadian Trade Policy for the 1980s* (Ottawa: Minister of Supply and Services, 1980) pp. 18-19.

participated. The more freely goods and other factors of production flow between countries, the greater are the pressures placed on traditionally national policies by the operation of an international economy. "Growing interdependence between states has meant that realization of domestic priorities and objectives for many countries is becoming more and more closely related to constraints and opportunities flowing from the international economic environment."³⁰ Hence, interest levels, exchange rates, regional subsidies and even social welfare expenditures may come under the hostile scrutiny or even the sanctions of economic partners.

In contrast to the nationalism implied by realists' stress on the zero-sum issues of power and security, economic issues offer variable-sum solutions at the expense of national autonomy. Trade liberalization promises expanded international trade and increased global productivity through more efficient allocation of resources. Certainly the unprecedented expansion of the global economy in the liberal trading environment of the post-war order seems to bear out liberal economic thinking. By the same token, the drift toward an integrated global economy has led to the domestication of foreign policy and the externalization of domestic policies. The hierarchy of issues assumed by realists is unable to allow for the trade-off between guns and butter -- or more accurately, between autonomy and welfare. Yet the increased salience of economic and welfare issues for modern states combined with a less threatening international environment for many countries has made the latter option not only possible, but, in many cases, preferable.

30. Canada, *A Review of Canadian Trade Policy*, p. 201.

Chapter Three

CANADA AND FREE TRADE

...this Commission believes that Canada stands at a turning point in its economic history, and that a new era demanding innovative foreign and domestic economic policies is about to dawn for Canadians. This new era will require our governments to develop and implement policies which will facilitate adjustment in the Canadian economy to a rapidly changing and increasingly interdependent world.

Commission on the Economic Union
and Development Prospects for Canada

The changes in the international order highlighted by liberal thinkers in their criticisms of realism are broadly paralleled in Canadian-American relations and specifically the Canadian decision to pursue a comprehensive trade agreement with Washington. The increased salience of economic issues accompanied by a decline in the urgency of security considerations has made close economic relations with the United States not only possible but desirable. Indeed, trade liberalization with the United States, evident since the mid-1930s, has progressed in steady fashion, despite a powerful nationalist impulse which has called for greater domestic control of an increasingly integrated continental economy. In drawing Canada still closer to the American economy, free trade is almost certain to impose further limitations on Canadian independence, yet promises to foster economic expansion. In the calculus of modern states, however, the trade-off is worthwhile and hence free trade, in the words of Prime Minister Mulroney, "is in the national interest."¹ The autarky in international politics apparent to realists and applauded by nationalists has, in the Canadian case, been contradicted by an evident cooperation among states in which economic issues are paramount.

1. *Maclean's*, March 23, 1987, p. 16.

Trade has always been vital to the health of the Canadian economy. Confederation was, at least in part, prompted by the failure of the provinces to regain reciprocity with the United States, and the National Policy aimed at pushing the Americans toward a trade agreement. Initially linked to Great Britain and the Empire, the end of the colonial preferences and the decline of the British Empire shifted Canadian attention to the United States and continental trade. Yet Canadian political and cultural values retained a strong British orientation, further distinguished by a French element and the incalculable effects of Canada's northern geography, which differentiated Canadians from their neighbours. The impact of American political and cultural values, propelled by a vigorous economy and expansionist spirit, has long been of concern to Canadians who have seen closer relations with the United States as threatening to Canadian identity and political autonomy, and has been opposed by nationalist legislation, usually in the form of protectionism, designed to counter American influence in Canadian society.

Despite the history of the issue, the decision to pursue free trade taken in September 1985 had solid popular and political support. Opinion surveys by Environics Research Group, published in the *Globe and Mail*, showed that in June 1984, 78 per cent of a national sample favoured free trade, and only 17 per cent disagreed. The next June, support for free trade, while slipping, remained strong with 65 per cent in favour and 30 per cent against.² Although the New Democratic Party opposed liberalization of trade with the United States, the Liberals, for the most part, endorsed the Conservative initiative. Indeed, the Liberal-appointed Macdonald Commission's recommendation for free trade was indicative of the broad support for trade liberalization with politicians, bureaucrats and academics alike. Among the provincial premiers, free trade received virtually unanimous support, with the possible exception of Ontario premier David Peterson who, while not opposed to negotiations, worried about the implications of any agreement on the Auto Pact.

2. Cited in David Bercuson, J.L. Granatstein, and W. R. Young, *Sacred Trust? Prime Minister Mulroney and the Conservative Party in Power* (Toronto: Doubleday, 1986) p. 265.

Yet Peterson's skepticism was somewhat muted by the fact that most analysts foresaw Ontario as reaping the greatest potential benefits of freer trade with the Americans.

A trade deal with Washington has been rendered more urgent by a Congress increasingly disposed to implement protectionist legislation in order to shield American producers from foreign competition. As the American share of the world market has declined, and in the face of a perennial balance of payments deficit, the U.S. has turned with increasing frequency to protectionist measures. This slipping commitment to the principles of liberal trade has also been felt at the multilateral level, particularly the GATT, where the United States remains the primary sponsor. Thus various trade barriers have been given legitimacy under the rules of the GATT while existing liberal trade codes have been diluted, effectively undermining the pursuit of liberalized trade on a global level. Further, the rising importance of regional trading blocs, most notably the European Economic Community, has left a fractured world economy, with Canada excluded from significant markets. Ottawa has therefore elected to pursue trade negotiations on a bilateral basis, in the aim of gaining exemption from American protectionist legislation and further enhancing Canadian access to the U.S. market.

The impact of a comprehensive trade arrangement with the United States is difficult to estimate. In the first place, any specific agreement has yet to be articulated, and even if it were, its long-term implications would likely remain obscure. Second, and more important, any measure of the effects of free trade, if it is to be at all meaningful, must be given in relation to the probable state of events in the absence of an agreement. The point is that the lack of an agreement does not imply a lack of change, and may in fact result in greater change than would be the case given free trade. Indeed, in as much as it represents an attempt to secure access to American markets, Canada's trade initiative seeks to maintain Canada's existing relationship with the United States in the face of growing protectionism. Further, even in the absence of a trade agreement, Washington will continue to exert considerable political and economic influence in Canada

solely by virtue of its economic and political clout. In some sense, therefore, free trade represents an attempt to regulate the Canadian-American trading relationship in the face of turbulent change.

At a different level, however, free trade represents a departure from Canadian political tradition. The decision to pursue a liberal trade agreement with Washington is significant for various reasons. In the first place, it flies in the face of a strong nationalist tradition in Canadian history, and one which has identified the United States as the principal antagonist. The defeat of Laurier's Liberals in 1911, Mackenzie King's feelings about the political popularity of free trade in the late 1940s, the support given Diefenbaker's nationalistic vision in the late 1950s, and the popularity of Trudeau's nationalism in the late 1960s and 1970s, all suggest either an overt antagonism or at least a healthy skepticism toward the United States has figured prominently in Canadian history. Moreover, it is a definition of nation in which autonomy is highly valued.³ Second, given the historic and political sensitivity of the issue, the commitment to free trade implies an alternate vision of the international environment in which rising interdependence and the increased salience of economic issues are fundamental. In such an understanding of the world, the trade-off between autonomy and economic welfare has shifted away from the former and toward the latter.

Nationalism and the United States

The economic advantages to be had in freer trade with the Americans appear, by most accounts, to be good. Although there are likely to be short-term dislocations in those industries that continue to be viable only given protection from American producers, the

3. Kim Richard Nossal, "Economic Nationalism and Continental Integration: Assumptions, Arguments and Alternatives," *The Politics of Canada's Economic Relationship with the United States*, ed. Denis Stairs and Gilbert R. Winham (Toronto: University of Toronto Press, 1985) p. 90.

majority of economic studies predict a long-term expansion of the economy in all regions.⁴ Indeed, the major point of contention among economists revolves around exactly how much GNP will rise and where it will rise the most, rather than whether it will rise at all. What appears far less tangible and a good deal less certain are the political and cultural effects of free trade. Any economic change of such magnitude entails a measure of risk, a fact recognized by Donald Macdonald who, while endorsing free trade, warned that it would eventually require a "leap of faith." It is not a jump all Canadians have been willing to take, as free trade appears to many as certain to erode Canadian political autonomy and cultural identity.

Canadian nationalism has long found definition in a sense of distinction, politically, economically and culturally, from the United States and from Americans. "Without at least a touch of anti-Americanism, Canada would have no reason to exist. Of all the general definitions of the Canadians, this is the most nearly valid: twenty million people who, for anything up to twenty million reasons, prefer not to be Americans."⁵ Given its location, not only sharing the longest border in the world with the United States, but further having the overwhelming majority of its population living within 200 miles of that border, the anti-American nationalism often exhibited by Canadians may be understood at least partially as a defensive reaction. Indeed, the very existence of Canada as a separate entity from the United States is unexpected. The natural lines of trade run perpendicular to the actual stretch of the country, and the expansionist history of the Americans rendered Canada an obvious target of annexation. The National Policy defied both those realities, yet Canada has always appeared a precarious nation. "The forefathers always knew that Canada, as a colony or dominion, was a very uncertain experiment, that we

4. See, for instance; Canada, Standing Senate Committee on Foreign Affairs, *Canada-United States Relations*, vol. 2: *Canada's Trade Relations with the United States* (Ottawa: Queen's Printer, June 1978); Economic Council of Canada, *Looking Outward: A New Trade Strategy for Canada* (Ottawa: Information Canada, 1975); and various volumes of the Macdonald Commission research.

5. Blair Fraser, *The Search for Identity: Canada, 1945-1967* (Garden City: Doubleday and Company, 1967) p. 301.

risked the wrath of the Americans by cutting their manifest destiny in half, that the British would be very reluctant to defend us, and that a transcontinental economy with rudimentary transportation facilities was a gamble."⁶

Despite its improbability, the Canadian experiment was successful in as much as it managed not only to survive, but thrive as a nation distinct both from its British heritage and the growing influence of the United States. Although Canada retained close links with Great Britain, keeping, in a very real sense, the British flag, political institutions, monarch and a host of other loyalties which marked Canadians as British subjects, it was evident even prior to Confederation that the United States would provide Canada its most logical trading partner. Canadian cultural and political attachments thus diverged from its geographic and economic partnership, a fact which accentuated Canadian sensitivity toward a growing American presence, economically, politically and culturally on the North American continent. Beginning with Macdonald's National Policy, Canadian legislation on a range of issues from cultural affairs to transportation, has been directed, at least in part, at preserving a political community distinct from the United States.

The fundamental differences in political philosophies, cultural background and historical experiences which exist between the two countries are manifest in very real differences in national character and outlook. While the United States came into being articulating the egalitarian and populist principles of the Declaration of Independence which were burned into the American consciousness by the struggle of the American Revolution, Canada lacks any such founding myth. As W.L. Morton points out, Canada "arrived at freedom through evolution in allegiance and not by revolutionary compact," making its "final governing force...tradition and convention."⁷ Further, Canadian politics rested on differing assumptions than the highly individualistic Lockean tradition of American politics. According to George Grant: "To be a Canadian was to build, along with

6. John W. Holmes, "Divided we stand," *International Journal* 31(3) (Summer, 1976), p. 387.

7. W.L. Morton, *The Canadian Identity* 2nd ed. (Toronto: University of Toronto Press, 1972) p. 86.

the French, a more ordered and stable society than the liberal experiment in the United States."⁸

The lack of any powerful founding myth in Canadian history as well as the broad ethnic background of its people has rendered Canadian nationalism somewhat uncertain, yet a sense of identity is given in contrast to the United States. Part of this identity is evident in the comparatively collective orientation of Canadians who have shown themselves far more willing than Americans to support government intervention in almost any aspect of life.⁹ While the NDP are considered moderate by Western European standards, the United States is notably lacking in any significant socialist movement, and has lagged behind Canada in its adoption of welfarist policies. In a study of welfare state development in North America, Robert T. Kudrle and Theodore R. Marmor found that Canadian programs were adopted earlier, financed more progressively, and/or were more income redistributive in the areas of old age security, unemployment insurance, family allowances and medical care. The authors note that "the ideological difference -- slight by international standards -- between Canada and the United States appears to have made a considerable difference in welfare state developments."¹⁰ The comparatively collective nature of Canadian culture and politics is given further by much stronger trade union membership in Canada than the United States.¹¹

In spite of these differences in political and cultural character, Canada has drawn steadily closer to the United States, most notably in its economic relations, but politically and culturally as well. Particularly since the Second World War, Canada's relationship with the United States progressed rapidly. Politically the war and ensuing struggle with

8. George Grant, *Lament for a Nation: The Defeat of Canadian Nationalism* (Toronto: Macmillan, 1978) p. 4.

9. Seymour Martin Lipset, "Canada and the United States: The Cultural Dimension," *Canada and the United States: Enduring Friendship, Persistent Stress*, ed. Charles F. Doran and John H. Sigler (Englewood Cliffs: Prentice-Hall, 1985) p. 141.

10. Robert T. Kudrle and Theodore R. Marmor, "The Development of the Welfare State in North America," *The Development of Welfare States in Europe and America*, ed. P. Flora and A. J. Heidenheimer (London: Transaction Books, 1981) p. 112.

11. In 1983, 20 per cent of the non-agricultural labour force in the United States belonged to labour organizations compared to 40 per cent in Canada.

Communism brought the two countries into close cooperation, most notably under NATO and NORAD which went a good distance toward integrating continental defence. The protectionism exhibited by both countries for the first third of this century began to dissolve in the mid-1930s with the Ottawa Agreements and the American Reciprocal Trade program, and continental trade continued to accelerate after the war as barriers to trade were lowered or removed altogether. The Defence Production Sharing Agreement of 1958 and the Canada-United States Automotive Products Agreement of 1965 offer the most explicit instances of continental economic cooperation. Culturally, the development and proliferation of electronic media, particularly television, had a homogenizing effect, orienting Canadians further toward the United States. "The two North American nations...now moved into a more comprehensive transnational relationship than any two independent nations have previously known."¹²

The growing pull of the United States, particularly in its post-war role as leader of the Western alliance, was met with considerable resistance by those who saw the homogenizing influence of American power as threatening to Canadian identity. Indeed, as Barry Buzan points out, political threats to the state may take on a strongly menacing nature, as the state is predominantly a political entity. Arising from "the great battleground of ideas, information and the traditions which is the underlying justification for international anarchy,"¹³ political threats are apt to be elusive, and are difficult to identify in the same sense as military threats. The task of defending the nation against such threats has fallen to the state as the primary vehicle for asserting and maintaining the separate existence of the nation. The state's sovereign political authority and its monopoly over members of civil society located within its territory give the state apparatus a capability, unmatched by any other group, to create and foster the symbols and sentiments of nationhood. As Kim Richard Nossal points out, it is the responsibility of the

12. John Sloan Davey, *Canada and the American Presence: The United States Interest in an Independent Canada* (New York: New York University Press, 1975) p. 17.

13. Barry Buzan, *People, States and Fear: The National Security Problem in International Relations* (London: Wheatsheaf Books, 1983) p. 77.

state, from the nationalist perspective, to pursue the three political ends of nationalism: the maintenance of the separateness of the nation from others (nations, states, or other groups); the maintenance of an ability of the nation to be self-determining, and the fostering of an adherence on the part of the nation's citizenry to the normative goodness of the nation as the natural basis for the political organization of the community to which they belong.¹⁴

The nationalist impulse has traditionally been strong in Canadian politics, and has long relied on Ottawa to promote its ends. The National Policy, while prompted by a failure to gain access to the American market, began a tradition of intervention in the economy designed to promote Canadian development and independence. Discrimination by legislation and practice; the creation of "infant industries" behind tariff barriers; regulation of foreign investment; legislation of ownership requirements; nationalization of key sectors of the economy; the use of the state to promote (or inhibit) or direct external trade; these, among many others, are policies by which the government has influenced economic activity in order to encourage nationalist sentiment and enhance Canadian autonomy. In spite of an evident gravitation toward the United States, such nationalist policy has often been highly antagonistic toward American interests. The rejection of free trade in 1891, 1911 and 1948, Diefenbaker's pledge to divert 15 per cent of Canada's trade with the United States to Great Britain, and the highly nationalistic policies of the Trudeau era,¹⁵ are indicative of a strong resentment of growing American influence in Canadian affairs. The only apparent way to counter such influence, as George Grant observed, is through government participation in, and direction of, the economy. "After 1940, nationalism had to go hand in hand with some measure of socialism. Only nationalism could provide the

14. Kim Richard Nossal, "Economic Nationalism and Continental Integration," *The Politics of Canada's Economic Relationship with the United States*, p. 62.

15. For example, the Canadian Development Corporation (1971), the Foreign Investment Review Act (1973-74), Petro-Canada (1975), Bill C-58 (1976), and the National Energy Policy (1980).

political incentive for planning; only planning could restrain the victory of continentalism."¹⁶

At the same time, however, there have evolved substantial interests which favour a strong bilateral relationship. While the protection offered by the National Policy was, for a considerable period, welcomed by Canadian producers as a necessary shelter from their larger American counterparts, the development of a more mature economy has rendered government participation in and regulation of the market an increasing burden on Canadian business as well as a deterrent to foreign investment. The success of the post-war trade regime in lowering tariffs worldwide meant both that Canada had improved access to global markets and that its own markets were more open. As with the United States, the arrangement suited Canadian interests in that the Canadian economy was one of the few to emerge from the war fully intact. Support for open trade was given further with the growth of powerful economic actors with a strong interest in international trade. Transnational corporations and international banks benefited tremendously from the trade and financial liberalization which occurred in the post-1945 period, and thus have tended to oppose government actions which threaten trade and investment flows.¹⁷ The growth in the Canadian manufacturing sector in the 1970s, largely accounted for by the Auto Pact, has further committed Canadians to bilateral trade. In fact, the Canadian Manufacturers Association, long a proponent of protectionism, is today firmly committed to free trade. As Jock Finlayson points out, "it is essential to recognize that the changing views of Canadian business, particularly in the manufacturing sector, have weakened greatly what historically has been the most potent source of opposition to freer Canada-U.S. trade."¹⁸

16. George Grant, *Lament for a Nation* p. 15.

17. Michael C. Webb and Mark W. Zacher, "Canadian Export Trade in a Changing International Environment," *Canada and the International Political/Economic Environment*, ed. Denis Stairs and Gilbert R. Winham, (Toronto: University of Toronto Press, 1985) p. 92.

18. Jock A. Finlayson, "Canadian International Economic Policy: Context, Issues and a Review of Some Recent Literature," *Canada and the International Political/Economic Environment*, ed. Denis Stairs and Gilbert R. Winham (Toronto: University of Toronto Press, 1985) p. 61.

The Canadian-American relationship has become closer in other respects as well. The political and military cooperation exhibited by the two countries throughout the Second World War and in shaping much of the post-war order resulted in unusually close relations -- what has come to be known as Canada's "special relationship" with Washington. The special relationship meant that Canada acknowledged America's pre-eminence in the Western alliance, and would defer to its foreign policy positions, keeping, for the most part, any reservations it might have for friendly discussions behind closed doors. In return, Ottawa received special consideration in Washington and was given privileged access to strategic intelligence.¹⁹ Canadian participation in NATO and NORAD was further indication of its allegiance to the Western cause, a cause particularly closely identified with the United States throughout the Cold War. Culturally, the impact of the United States in Canada was expanded greatly with the advent of television, exposing Canadians as never before to American tastes and values. The post-war era thus oriented Canada more than ever toward the United States, displacing almost entirely the British role of a previous generation.

Rising Protectionism

Canada's special relationship with Washington has become somewhat more ordinary as the United States has become increasingly incapable of carrying an escalating trade deficit. The "Nixon shocks" of 1971, which freed the American dollar from the gold standard and placed a 10 per cent surcharge on imports, were aimed at balancing the American current account, yet were particularly horrifying to Canadian producers. Equally unsettling was the fact that Canada had not been granted exemption from the surcharge, calling into question the specialness of Ottawa's relationship with Washington. The relative economic decline of the United States, evident since the mid-1960s, has given

19. Stephen Clarkson, *Canada and the Reagan Challenge: Crisis and Adjustment, 1981-85* (Toronto: James Lorimer and Company, 1985) p. 6.

rise to growing protectionism as American producers have fought to retain markets in the face of escalating global competition. As the United States is further the primary sponsor of the liberal trade order, its eroding commitment to the principles of open trade has contributed to a decline in the effectiveness of multilateral institutions, most notably the GATT, aimed at increasing global trade flows. The rise of regional trade blocs, led by the European Community, has further eroded the liberal trade regime by restricting access to major world markets. Such protectionism has proven deeply threatening to Canada which is highly dependent on trade, and severely limited its foreign policy options.

The need for a liberal world trade order which would allow Canadian producers access to international markets has, at least since the mid-1930s, been recognized by Ottawa. Canada has thus given strong support to the liberalized multilateral international trading system and its institutions, primarily the GATT, believing such a system to be Canada's best chance for reducing foreign trade barriers and allow for the expansion and diversification of Canadian exports.²⁰ The multilateral forum provided by the GATT fit in well with Canada's self-image as a middle-power, allowing it to pursue Canadian trade interests while at the same time preserving national independence. As pointed out in the Department of External Affairs 1983 review of Canadian trade policy:

This has contributed to reducing the political differences between the two options so frequently debated throughout Canada's history as a nation, i.e. whether or not to seek greater economic integration with the United States in order to obtain greater economies of scale and significant increases in productivity (i.e., a Canada-United States free trade area or customs union), or to retain our national economic independence and somewhat less potential for a productive economy.²¹

Access to world markets, despite the GATT, is becoming increasingly uncertain, and is particularly serious for Canadian producers who, along with the Australians, are the only industrialized countries without guaranteed access to a market of 100 million or

20. Michael C. Webb and Mark W. Zacher "Canadian Export Trade in a Changing International Environment," *Canada and the International Political/Economic Environment*, pp. 88-89.

21. Department of External Affairs *A Review of Canadian Trade Policy: A Background Document to Canadian Trade Policy for the 1980s* (Ottawa: Minister of Supply and Services, 1983) p. 9.

more. The principle of non-discrimination, which is the foundation on which any multilateral trading system must be based, has been deeply threatened by the establishment of preference areas or regional trading blocs. By far the most important is that formed by the European Community. This bloc now includes several Mediterranean members, as well as developing countries in Africa, the Caribbean and the Pacific, and is further tied by industrial free trade agreements to the countries of the European Free Trade Association (EFTA). Roughly one-fifth of world trade now takes place within the EC-centered preferential trading system.²² Other preferential trading systems include the Association of South-East Asian Nations (ASEAN), the Caribbean Common Market (CARICOM), and the Generalized System of Preferences. While such discrimination violates the spirit of the GATT, it has generally been legitimized either by waivers from GATT obligations, or by application of Article 24 of the General Agreement.

The clearest danger to Canada in the growth of regionalism is that Canadian products will be excluded from an increasing number of markets. The European Community's discrimination against non-members has directly affected Canadian exports to Europe. Canadian exports of wheat to formerly large markets in Britain and continental European countries have been severely reduced by the Community's Common Agricultural Policy (CAP) which subsidizes EC production behind a common external tariff. Indeed, the CAP has contributed significantly to a collapse in global agricultural prices and rising levels of agricultural subsidization elsewhere (particularly in the United States), further distorting the global market. Another negative consequence for Canada of the tendency toward regionalism is a growing propensity for Japan, the United States and the European Community to settle issues of world trade policy on a trilateral basis, giving Canada limited opportunity to voice its concerns. Even when a multilateral framework is employed, however, Canada now has few opportunities to influence outcomes by allying

22. Canada, *Report of the Royal Commission on the Economic Union and Development Prospects for Canada* vol. 1 (Ottawa: Minister of Supply and Services, 1985) p. 244.

itself with other medium-sized states. Among smaller industrialized countries, only Canada, Australia and New Zealand stand alone.

The impediment to international trade presented by the evolution of large trading blocs have largely been sanctioned by the GATT as have a number of other barriers. The increased competitiveness of Japan and the NICs has stimulated protectionist pressures in those markets where penetration has been greatest. Between 1960 and 1980 Japan's share of total world GNP increased from 3 to 10 per cent, while its share of world exports rose from 4.5 per cent in 1965 to 8.4 per cent in 1984. The NICs, including Korea, Taiwan, Singapore, Brazil and Mexico, have increased their share of world exports from 6 per cent in 1970 to 9.3 per cent in 1980 and 11.4 per cent in 1983.²³ There is further a perception, with some justification, that this competitiveness has been obtained unfairly. Barriers to trade and investment remain relatively high in these countries, while competitors have been undermined by dumping in their markets. As Michael Webb and Mark Zacher point out:

the shift to Japan and the NICs has been one of the most important causes of the weakening of the GATT-centered, multilateral, rule-based international trading system, and thus has influenced the prospects generally for all Canadian export-oriented sectors.²⁴

The United States and Western Europe in particular have proven sensitive to such competition and have prevailed within the GATT to legitimate certain barriers, so long as they are imposed in a particular manner and follow specific procedures. The result has been to encourage member states which had not employed certain types of barriers to arm themselves with the full range of GATT rights in order to defend themselves against other members.

23. Cited in I.M. Destler, *American Trade Politics: System Under Stress* (Washington: Institute for International Economics, 1986) pp. 46-47.

24. Michael C. Webb and Mark W. Zacher "Canadian Export Trade in a Changing International Environment," *Canada and the International Political/Economic Environment*, p. 96.

The decline in the relative power of the United States has hindered further liberalization of the international trading system. Whereas in past years U.S. participation in the GATT was as much inspired by political and strategic considerations as by trade and economic factors, the latter are now far more important. The 1970s and 1980s saw U.S. firms and workers become far more exposed to foreign competition in both domestic and overseas markets. In the American understanding, particularly in regard to the Japanese and Europeans, they have been victims of past generosity. It is a role they are unwilling to continue playing:

The United States no longer considers that there is any strategic advantage in "going first". It is not prepared to open its market further until it is clear that other markets will be significantly more open, and that greater discipline will be imposed on unfair trade practices.²⁵

As the United States remains the principal sponsor of the GATT, and American trade law already provides American business interests broad scope to harass foreign competitors, the U.S. call for more rules and greater discipline in international trade relations is hardly reassuring for countries such as Canada which are heavily dependent on trade.

In order to "level the playing field", the Americans have at their disposal a range of legislation which might be used to protect domestic producers from foreign competition deemed to be unfair. The Anti-Dumping Act provides an instrument of defence against the import of products at prices below those charged in the exporter's economy if this causes economic injury. While the Kennedy round of the GATT led to the 1967 adoption of an international anti-dumping code which gave relatively clear definition to injury and causation in the event of dumping, this code was defied by Congress in the 1974 Trade Act, and at the Tokyo Round the GATT was brought into line with this weakened legislation.²⁶ The 1974 Trade Act provides a second line of defence whereby the government can impose temporary quotas, tariffs or other restrictions if it is determined that an item is a substantial cause of injury or threat to domestic competitors. Under

25. Canada, *Report of the Royal Commission* vol.1 p. 285

26. Stephen Clarkson *Canada and the Reagan Challenge: Crisis and Adjustment, 1981-85* (Toronto: James Lorimer and Company, 1985) p. 118.

section 303 of the 1930 Tariff Act, the president is authorized to impose countervailing duties on products which have received a foreign government subsidy, at no matter what stage of the production process. Further, under section 301, any policy of a foreign government which reduces American exports may be subject to retaliation. These are but a few of the legal weapons in the American trade arsenal. In addition, the new omnibus trade bill currently in front of the Congress promises to substantially broaden the definition of subsidies and thus expand further the reach of American trade legislation.

What is of concern to Canadians is what Rodney Grey has described as "the excessive degree of arbitrariness or administrative discretion that seems implicit in the system."²⁷ Yet even in those instances when contingency protection or other aid offered to American producers is in direct contravention of the GATT, there is little that may be done since the GATT has no means to enforce its rulings. The United States thus ignored a GATT panel's decision that the Domestic Investment Sales Corporation (DISC) program violated the subsidies code under article 16 of the General Agreement.²⁸

Given the concern for Canadian producers in obtaining barrier-free market access, which is sufficiently stable and secure from future political and legal challenges as to allow expanded investment on production intended for export, the erosion in the multilateral trading order witnessed in the last twenty years is far from reassuring. The failure of Trudeau's Third Option in diversifying Canadian export markets underlined concerns with the international trading system as well as Canadian competitiveness abroad. Without access to larger markets, however, it will remain difficult to enhance the ability of Canadian industry to compete internationally. The desire to pursue bilateral negotiations with the United States may thus be understood as a response to increasingly competitive international markets as well as the inability of the multilateral trading system to deal effectively with current concerns. Far and away the most important market to Canadian

27. Cited in Clarkson, *Canada and the Reagan Challenge* p. 121.

28. See Fred Lazar *The New Protectionism: Non-Tariff Barriers and Their Effects on Canada* (Toronto: James Lorimer, 1981) p. 5.

exports, the United States threatens to become increasingly inaccessible. The countervailing duties proposed in the fall of 1986 to apply to Canadian exports of softwood lumber and recent sanctions against potash exports point convincingly to the threat contained in American protectionism to the Canadian economy. Without some guarantee of access to American markets, Canadian producers and in turn the Canadian economy appear bound to suffer.

The Impact of Free Trade

Possessing a relatively small, open economy, Canada has always been dependent on trade in order to sustain a high standard of living. More than 30 per cent of Canadian GNP is generated by exports of goods and services,²⁹ a greater proportion than any of the seven major Western economies. Canadian economic health is thus highly dependent on open markets as well as competitive industry. Since resources have traditionally formed the bulk of Canadian exports, the competitiveness of Canadian industry was largely given by the natural wealth of the country. More recently, however, trade in finished manufactured goods has accounted for an increasing share of Canadian exports, nearly doubling in volume between 1971 and 1981, and accounting for the expansion of Canadian trade which took place in the 1970s.³⁰ Most significant has been an increase in fully-finished manufactured products, particularly sales of automobiles and parts taking place under the Auto Pact, which now accounts for nearly a third of Canadian exports. Given increased global competition in primary products which has acted to depress commodity prices, it seems likely that gains in trade, particularly for an advanced industrial economy such as Canada's, are to be best realized given a competitive secondary sector.

29. Canada, Department of External Affairs *A Review of Canadian Trade Policy* p. 3.

30. Canada, *Report of the Royal Commission* p. 226

Without secure access to a reasonably large market, however, Canadian manufacturers are unlikely to achieve economies of scale sufficient to render their products competitive on a global scale. Given the declining utility of the multilateral trading system in expanding or even holding markets open internationally, maintaining access to the American market has become vital to the Canadian economy both because the United States is by far the largest purchaser of Canadian exports and because without such access Canadian producers will be incapable of matching the efficiency of foreign producers with assured access to large markets. In fact, many of those who favour a free trade deal with the United States have argued that by creating a more competitive economy, open continental trade will actually increase Canadian independence by making Canadian products viable in other markets besides the United States, hence making a 'third option' strategy workable. "An economically strong Canada is in a much better situation to maintain political and cultural independence than an economically weak Canada."³¹

While a comprehensive trade deal with the United States is likely to improve the fortunes of Canadians by rationalizing continental production and trade flows as well as ensuring a large and relatively secure pool of consumers, it appears less likely that such an arrangement might work to increase Canadian independence from American influence. Rather than creating international entrepreneurs, free trade, by granting Canadian producers privileged access to the American market, will bring Canadian industry under the umbrella of American protectionism.³² Canada might thus come to depend upon and identify with American trade legislation in the same way as U.S. producers, since such legislation would give Canadian companies a distinct advantage over competitors outside of North America, yet Washington would retain the power of terminating access. The Americans, as they did in 1865, will retain the option of abrogating any treaty. As David Haglund points out, senatorial politics have a history of despoiling the best of plans, the

31. Canada, Senate Committee on Foreign Affairs, *Canada-United States Relations: Canada's Trade Relations with the United States* (Ottawa:Queen's Printer, 1980) p. 122.

32. This point was suggested by Alan C. Cairns.

rejection of the Versailles Treaty being only the most significant instance. "Treaties once signed, the moral is, do not necessarily get ratified; and treaties once ratified can be abrogated."³³ Ronald J. Wonnacott argues that a free trade agreement would be much more reversible for the United States than for Canada, since Canada only comprises 10 per cent of the North American market and its absence would mean much less to American producers than the reverse. "Thus the threat of termination of a free trade agreement would give the U.S. a bargaining lever that would be very difficult for Canada to resist and might conceivably be used to influence Canadian policy in quite unrelated noneconomic areas."³⁴

Even given a relatively secure agreement, trade liberalization will almost certainly have a homogenizing effect, blurring differences in political philosophy, values and culture. As mentioned above, such distinctions have resulted in differing political traditions which are bound to conflict given a more open trading relationship. Most significantly, the Canadian tradition of state intervention is unlikely to be acceptable to the Americans who view such activism not only as un-American, but, as U.S. trade legislation shows clearly, unfair. In light of its ongoing current accounts deficit, the American preoccupation with "fair trade" is understandable, yet it embodies a notion of fairness particular to American political and economic culture. Given the relative size of the American economy and market, it seems farfetched to think that Canadian governments might continue, as in the past, to take an active role in the economy in the face of open trade.

33. David G. Haglund "Unbridled Constraint: The Macdonald Commission Volumes on Canada and the International Political Economy," Centre for International Relations Occasional Paper no. 14 (Kingston: Queen's University, 1987) p. 14.

34. Ronald J. Wonnacott "Canada/U.S. economic relations: A Canadian View," *Canada/United States Trade and Investment Issues*, ed. Deborah Fretz, Robert Stern, and John Whalley (Toronto: Ontario Economic Council Special Research Report, 1985) p. 85.

...it does seem plausible that as the smaller partner with proportionally the more elaborate system of federal economic intervention, Canada will have to do the bulk of adjusting to pressure for "fairer competition." In that sense Canada would surrender a measure of political independence to the United States with free trade, as the Canadian socio-economic policy environment would have to be brought into and kept in rough accord with that of the much larger neighbour.³⁵

A free trade agreement, once arrived at, is likely to heighten American expectations that Canada will or should obey U.S. rules regarding fair trading practices and the proper role of the state in the economy. "It would, in essence, strengthen the conviction of offended American interests that in protesting Canadian governments' intervention in support of our own economy, they were acting from just cause."³⁶ Pressure to change Canadian policy would thus mount, while American arguments would likely make such appeals more difficult to resist.

The Canadian desire for some form of bilateral dispute resolution mechanism and freedom from the protectionist measures contained in American trade legislation would presumably work to contain excessive American influence over Canadian public policy. Although Simon Reisman and Prime Minister Mulroney have stated that both are conditions for any potential trade deal, the Americans, including President Reagan, appear unwilling to consider such terms acceptable. The largest stumbling block appears to be Congress which is unlikely to grant Canada immunity from trade legislation it sees as justified, and unwilling to lend authority over foreign policy issues to an institution outside of the U.S. government. Evidently a good deal of what is said in the midst of negotiations amounts to mere posturing, yet it is doubtful that, whatever bilateral institutions might be established and whatever exemptions Ottawa might negotiate, the relative economic power of the United States will cease to make itself felt.

35. Charles Pentland, "North American Integration and the Canadian Political System," *The Politics of Canada's Economic Relationship with the United States*, ed. Denis Stairs and Gilbert R. Winham (Toronto: University of Toronto Press, 1985) p. 116.

36. Canada, *Report of the Royal Commission* p. 358

More broadly, greater American access to the Canadian economy and unbridled competition for the North American market that would result from trade liberalization is bound to increase the already powerful influence of American culture and economics over Canadian life. "Our problem is not fundamentally with the policies of the United States government but with the transnational impact of the explosive force of American economics and American culture."³⁷ With the continuing evolution of transportation, communications and other technologies, transnational influences are bound to increase still further, and without legislated protection, Canadian society will feel, more than ever, the full impact of the American economy and culture. Not only will American television, literature and technology be allowed greater access to the Canadian market, but further, in order to compete successfully with such products, Canadian producers and governments will be forced to cater to American tastes and emulate American policies or risk being cut out of 90 per cent of the North American market.

In order to remain economically attractive, Canada will have to compete at a political level with the United States. Any legislation which effectively increases production costs in Canada, such as safety regulations, wage legislation or environmental protection, will have to be measured against comparable American policies if Canadian products are to be competitive in a continental market. Given comparative levels of spending on social welfare programs and taxation rates, it seems probable that Canadian government spending would have to be cut in order to attract investment. As Charles Pentland points out:

Once the barriers to free movement of goods, people, capital and services have been removed, attention naturally turns to other forms of market distortion, most of which relate to what governments do: procurement policies, tax structures, equalization payments, regional subsidies, environmental regulation and other such activities.³⁸

37. John W. Holmes "Divided we stand," *International Journal* 31(3) p. 397.

38. Charles Pentland "North American Integration and the Canadian Political System," *The Politics of Canada's Economic Relationship with the United States*, p. 116.

Such influences appear particularly threatening to the Canadian sense of nationalism, which has always distinguished itself from the United States and further prided itself in possessing a greater sense of community than the individualistic, anti-collective ethos of American liberalism. Socialist and labour groups have therefore felt particularly threatened by liberalized trade. Not only are Canadian social welfare policies vulnerable to the influence of American ideology, but further it appears probable that free trade would result in an erosion of Canadian labour legislation in order to render Canadian producers more competitive. "In the light of harsh economic policies, in a world where capital and technology are highly mobile, workers are properly suspicious that comparative advantage will be defined on the basis of who will work for the lowest wage."³⁹

In eroding the comparatively interventionist nature of Canadian government, free trade thus threatens not only the historic character of Canadian politics, but further one of the means by which Canada has ensured its autonomy from the United States. As pointed out above, the natural economic attraction of continentalism has, beginning with the National Policy, been countered with government intervention designed to promote nationalism by fostering east-west rather than north-south links. "A society only articulates itself as a nation through some common intention among its people."⁴⁰ Nationalism is vital to autonomy in that without a perception of national identity, a feeling of shared values and intentions which are identified with a national group, there is reduced cause for independence. This is not to say that free trade threatens the Canadian state. As Alan Cairns has pointed out, governments tend to be more adaptive than much sociological theory suggests and are likely to persist despite a lack of national distinction.⁴¹ Yet survival in the contemporary world is contingent, more so than ever before, on possessing the requisite economic means. Autonomy, therefore, is increasingly disposable,

39. Mel Watkins "Reservations Concerning a Free Trade Area Between Canada and the United States," *Canada and United States Free Trade*, ed. John Whalley (Toronto: University of Toronto Press, 1985) p. 86.

40. George Grant, *Lament for a Nation* p. 68.

41. Alan C. Cairns, "The Governments and Societies of Canadian Federalism," *Canadian Journal of Political Science*, December, 1977.

as the existence of adequate economic resources is far more vital to the security of government than the existence of a distinct national group over which to govern.

Much of the discussion concerning the effects of free trade must necessarily remain speculative, particularly as any trade agreement between Ottawa and Washington which might be reached has yet to be articulated. Whether or not Ottawa is able to arrive at an acceptable accord with Washington will very much depend on what safeguards to the Canadian economy are amenable to both sides. The apparent unwillingness of the United States to consider the creation of a body to settle bilateral trade disputes independently of either government indicates that the Americans are unlikely to exempt Canadian goods from trade legislation, something Ottawa clearly desires. "The trade remedy laws," Mulroney has said, "cannot apply to Canada, period."⁴² The problem is that Canada has little with which to induce the United States. Any agreement would obviously exempt U.S. firms from Canadian safeguards and countervail procedures, but Congress is unlikely to see this as an equal concession. Such irritants as drug patent legislation, border broadcasting regulations, and copyright differences might be eliminated, but they are considered unfair by American standards anyway.

The one inducement which would likely prove adequate to the United States is to open investment flows into Canada. If Canadian companies were owned by U.S. parent firms there would be little interest in Washington in restricting their exports and thereby curtailing profits. Expanding American trade and investment opportunities sufficiently to get Washington to agree to a free trade arrangement may, however, prove costly. "Nothing short of sweeping concessions seems capable of inducing the United States to exempt Canada from its normal trade laws."⁴³ Unhindered American investment in such vital sectors as energy, banking, and health services is thus a possibility, yet one which would probably prove politically sensitive.

42. Cited in B.B. Kymlicka and R.A. Young, "Free-trade brinkmanship may be costly for Canada," *The Globe and Mail*, May 21, 1987. p. A7.

43. B.B. Kymlicka and R.A. Young, *The Globe and Mail*, May 21, 1987.

A free trade deal thus appears likely to render Canada more vulnerable to American pressures. In the first place, Ottawa is not bargaining from a position of strength in seeking secure access to the American market, particularly given the protectionist inclinations of Congress. Thus it seems unlikely that Canada will be able to negotiate strong protections for Canadian culture and institutions in any deal acceptable in Washington. Second, increased American access to the Canadian market will expand its already considerable influence in the Canadian economy. Direct competition with the Americans is further bound to foster pressures for reduced government participation and intervention in the economy, from both American and Canadian producers. Canadian social welfare programs are also likely to come under pressure as Canada competes with the United States for investment. By threatening to restrict access to its market, Washington might further exert its influence over Ottawa in areas unrelated to continental commerce. Autonomy, therefore, seems an inevitable casualty of a free trade deal.

Conclusions

The Canadian economy has always been heavily reliant on trade, and has become increasingly so, while the United States has provided Canadians with their largest foreign market for most of this century. The rising importance of regional trade blocs, particularly the EC, has not only deprived Canada of equal access to important markets, but further undermined the liberal trade regime established in the wake of the Second World War. Canada has thus been faced with narrowing access to overseas markets and relied increasingly on the United States to purchase its products. The protectionist trend in American trade policy evident since the early 1970s is thus understandably troubling to Ottawa, particularly as the United States remains the primary sponsor of the international trade order presided over by the GATT. The failure of the Third Option, Canada's attempt in the mid-1970s to diversify its markets, is therefore hardly surprising and has brought about a re-evaluation of Canada's trade options.

The impetus for free trade is thus apparent. Not only would a trade deal with the United States ensure continued access to Canada's most lucrative foreign market, but, as economists are quick to point out, liberalized trade with the United States would actually bring about an expansion in the Canadian economy through the rationalization of continental production. Even further, given secure access to the American market, Canadian manufacturers would be able to achieve sufficient economies of scale to render Canadian products internationally competitive. Given the increased salience of economic issues in all industrialized states, the attraction of a free trade deal and the national prosperity such an arrangement promises has proven sufficient to overcome the historical reservations of Canadians.

At the same time, gaining access to the American market entails granting reciprocal access at the very least, and more than likely involves opening investment flows as well. In order to escape sanctions, Canadian producers and governments will almost certainly be required to alter their behaviour so as to conform with American perceptions of free enterprise. American trade legislation is indicative of the determination in the U.S. to ensure that foreign competition is granted access to American markets only on the condition that it competes on an equal footing with American products. However, the concept of "fair trade" embodies a distinctly American philosophy as to what constitutes legitimate commercial practice. Deviations from the free enterprise ideal are likely to be penalized, particularly if Canada is unable to convince the Americans of the need for a trade dispute resolution mechanism independent of either government.

Government participation in the Canadian economy is therefore likely to be curtailed under a free trade agreement. Yet such activity has been crucial on the past in maintaining Canadian independence and enforcing the more collective orientation of Canadian society. Government participation in the economy has tended to encourage nationalism by promoting Canadian products and activities, often at the expense of American competitors. Social welfare programs have been further developed and formed a

larger role in Canadian politics than is the case in the United States. Not only would such activity be seen as unfair by Americans, but the tax base needed to maintain social welfare policies might prove too much of a burden on the Canadian economy in the face of direct competition with the Americans. Likewise, government regulation of environmental concerns, labour practices and a range of other issues might render Canadian producers uncompetitive in a continental economy.

The burden of adjustment, given a free trade deal, will rest with Canada. Comprising only a tenth of the North American economy and seeking access to the American market at a time when Washington is showing itself as particularly defensive on trade issues, it is unlikely that Canada will be able to extract many concessions. Besides more liberal investment rules, Ottawa has little with which to entice the Americans. Simon Reisman's suggestion that Canada sell off its fresh water is indication of the scarcity of bargaining chips with which he has to play and suggests that Canada is likely to have to make political concessions in securing any kind of trade deal. Access to the American market may therefore only be possible provided Canada plays by American rules.

The decision to pursue a free trade deal does not necessarily signal the end of Canadian nationalism, but it may be indication of a differing conception of nation in which the interdependence of modern states and the need for economic welfare are crucial. In such an understanding, national identity is given in terms of national prosperity. In their introduction to the Report, the authors of the Macdonald Commission offered this view of Canadian identity:

We are convinced that in the modern era, one of the crucial components of a satisfying Canadian identity is to be found in our economic capacity to perform at a high level in a competitive world. A long-run decline in our relative growth performance, compared to that of other nations with which we habitually compare ourselves, is a recipe neither for meaningful independence nor for a satisfying sense of self.⁴⁴

44. Canada, *State, Society and Economy: An Introduction to the Report* (Ottawa: Minister for Supply and Services, 1985) p. 4.

This contrasts clearly with the nationalism of George Grant or Mel Hurtig in which autonomy from outside influence, particularly the United States, is crucial, no matter what the economic costs. International politics thus becomes increasingly an economic competition in which protectionism undermines national identity by subverting the competitive position of the Canadian economy.

The pursuit of a comprehensive trade agreement with Washington is significant because it implies a shift in the orientation of Canadian politics. The long-standing trade-off between autonomy and wealth has not changed, yet the significance assigned national affluence has risen. A growing interdependence among states, undermining national autonomy, has been accepted as an unavoidable consequence of contemporary statehood, particularly as the importance of trade to virtually all countries has risen. The liberal trade order built in the aftermath of World War II has successfully increased international trade flows, yet has further rendered all states more vulnerable to the actions of others. "An international economic system based on the free flow of goods and services imposes restrictions on each country's right to pursue its own particular goals and policies."⁴⁵ The benefit lies in an expanding national economy. What has changed is not the trade-off between autonomy and wealth which has long marked Canadian history, but rather the value placed on economic performance.

45. Canada, *Report of the Royal Commission* vol.1 p. 281.

Chapter Four

CONCLUSION: SHIFTING VALUES

...interdependent relationships will always involve costs, since interdependence restricts autonomy; but it is impossible to specify a priori whether the benefits of a relationship will exceed the costs. This will depend on the values of the actors as well as the nature of the relationship.

Robert O. Keohane and
Joseph S. Nye (1977)

The change in political atmosphere which has rendered a formal liberalized trade agreement with the United States desirable in the eyes of Canadian decision makers may be better understood in reference to broader changes that have marked virtually all advanced industrial nations since the close of the Second World War. The widespread acceptance of Keynesian economic principles combined with greater attention to issues of national welfare has required of government far more concern than previously with national economic management. In an age where employment, health and welfare are no longer considered strictly individual concerns, the performance and even the legitimacy of government are more likely to be judged on economic grounds than with reference to the more traditional demands of foreign policy. Indeed, issues of state security, while remaining vital to all countries, have lost much of their urgency in many nations in light of nuclear proliferation and the growth of interdependence.

Increased interdependence is most evident in international commercial relations. The success of the post-war trading order in substantially increasing trade and capital flows between western nations has led to a growing reliance on trade for virtually all states, and a consequent interdependence of national economies. Exchange rates, interest levels and national debts have thus become international as well as national concerns. Increasing industrialization has further placed growing stress on the environment, often with international implications. War itself may no longer be confined to the combatants alone. In its most extreme form it threatens the existence of the entire planet, yet even at conventional levels, war is bound to jeopardize international interests.

The increased salience of economic issues and the declining utility of military force as a tool of foreign policy has shifted the guns versus butter trade-off away from the former and toward the latter. A further result has been the growing politicization of trade issues as economic gains become increasingly important to all states. In this light the growing protectionism of the United States may be understood as a consequence of the rising competitiveness of the world economy which challenges American dominance. No longer willing or able to trade-off economic benefits for strategic ends, American sponsorship of the liberal trade order has become increasingly tenuous. The growing importance of regional trade blocs to international commerce has further acted to fragment the global economy, and has left Canada particularly vulnerable to rising protectionism.

The impetus for a trade deal with the Americans is thus apparent. The cost of independence is increasing while the gains to be had in further integration, at least in economic terms, appear substantial. Yet the price of linking the Canadian market with the American will be extracted in terms of Canadian political and cultural autonomy. Indeed, Canada is particularly vulnerable to American pressure since access to the Canadian economy offers comparatively little to U.S. producers and investors. While economists foresee a sizable expansion of the Canadian economy given relatively unrestricted access to the United States for Canadian goods, the impact of such a deal in

the United States will be slight by comparison. Hence Washington has little to lose in asking concessions of Ottawa, and shows little understanding of Canadian cultural and political concerns.

Even given a deal with safeguards acceptable to Canada, free trade is likely to erode Canadian independence. Oriented toward a North American market, Canadian policy will face increasing pressures to abandon programs that might distract from Canada's attraction to investment. Hence the relatively collectivist ethos of Canadian politics which has resulted in more progressive welfare, labour, environmental and other legislation might be abandoned in order to ensure successful economic performance. Further, programs which the Americans have already identified as unfair, such as government sponsorship and protection of cultural activities and subsidization of regional development, will almost certainly have to be forfeited if American trade sanctions are to be avoided.

Free trade will thus require a re-orientation of Canadian policies in such a way that they conform with American perceptions of what constitutes "fair trade". Clearly, most of what the Americans object to concerning trade with Canada revolves around government participation in the productive process. Hence countervailing duties were applied to tires produced by Michelin in Nova Scotia because the plant in question was the recipient of federal subsidies designed to encourage regional development, and sanctions were threatened against softwood lumber in British Columbia because government stumpage rates were perceived to be unfair. Free trade, in as much as it would require of Canada greater conformity to American commercial practices, will erode political independence.

That Canada is willing to forfeit independence in the expectation of economic expansion is telling. In the first place, Canadians have historically placed a high premium on independence from the United States, although they have periodically flirted with the idea of free trade. The political price has, however, always proven prohibitive. Thus

North American trade liberalization, at Canadian initiative, represents a significant step from a nationalism which has long contained a strong current of anti-Americanism. Given such antagonism, the decision to pursue free trade suggests further a change in the relative value of economic performance to the state. Thus, as the economic demands on the state have grown, independence has become an increasing burden.

Given these changes in the international political environment, the traditional concerns of international relations appear less and less pressing to contemporary statesmen. For the majority of industrialized states, military power is of little utility in resolving the foreign policy dilemmas with which they are faced, and might in fact destroy profitable relations with other countries. Thus realism, still the dominant paradigm in the field of international relations, is faced with mounting difficulties in explaining the behaviour of contemporary states. The problem lies in what kind of questions are being asked. In the realist understanding, issues of economic welfare lie outside the core issues of security and power, except insofar as they contribute to power ends. Yet for many modern states, economic issues rival security considerations and may in fact supersede them.

In the case of Canada, the traditional concern with autonomy has receded in the face of economic considerations. Canadian nationalism, long associated with independence from the United States, has been replaced by an alternate vision of the world. Integrationists see increasing world interdependence as a fact of life to which Canada will have to adapt in order to maintain its economic and political health. Indeed, in such an understanding, it is only by maintaining a vigorous economy that Canadian independence may be assured, as economic power has become vital to maintaining the goals of the welfare state. Yet economic integration with the United States is likely to diminish the range of policy options open to Canadian decision makers as production in Canada will need to conform to standards and practices in the United States if market access is to be assured. The trade-off is thus one of autonomy for economic gain.

The increased importance of economic goals over political autonomy revealed in the Canadian desire for a free trade accord with Washington parallels the realist-pluralist debate in international relations. Security and power goals have been discounted in the face of the increased relevance of economic issues to the modern state. National autonomy is being eroded by rising interdependence which acts to externalize domestic policy and internalize foreign policy. Trade issues have thus become increasingly politicized, threatening the liberal trading order in which modern states have an increasing stake. Excluded from major markets, Canada has been driven to seek a bilateral trade deal with the United States in order to ensure its economic security.

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