

NAVIGATING THE EMERGING WORLD ORDER

Report of a Seminar on

***The Changing World Order: What Will It Mean for Canadian Foreign
Policy in 2014?***

Ottawa, March 12, 2009

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Navigating the Emerging World Order

Key Conclusions

Momentous Change. We will still be in an era of momentous change in 2014. No country will have escaped from the financial and economic crisis. Fiscal constraints will reduce states' room to manoeuvre, limiting what they can do internally and potentially forcing them to break long standing international commitments. We are likely to witness mounting evidence of climate change, the prevalence of non-traditional security problems, the gathering force of religion, the aging of developed country populations and the continuing effects of the information revolution. There will nevertheless be scope for effective political leadership to shape the international environment.

An Increasingly Multipolar World. The world order will be becoming multipolar in 2014. The United States will still be the leading world power, albeit weakened economically. The poor countries will continue to be a potential source of instability. Decision makers will have to take into account the increasing number of non-state actors.

The Governance Challenge. International governance reform is the most important issue confronting governments but there are grounds for scepticism that they will cooperate sufficiently to be making real progress by 2014. International institutions have to be redesigned to accommodate shifts of power in the world. The G-20 is likely to prove more useful than institutions developed when the West was economically dominant. It is, however, uncertain that the emerging powers will shoulder the responsibilities that come with their enhanced status.

What Are the Implications for Canada? In 2014 the predominant external factors shaping Canadian policy will be how well the United States comes out of the financial and economic crisis and the course it then steers. Canada must pursue its interest in the bilateral relationship but at the same time the multipolar nature of the world will require it to strengthen its international linkages. Canada's ability to contribute useful ideas and leadership can help compensate for its weakness in some of the traditional instruments of power.

Background

The seminar, sponsored by the National Capital Branch of the Canadian International Council (CIC) with support from Foreign Affairs and International Trade Canada, was held on March 12, 2009 at 111 Sussex Drive, Ottawa. The meeting was chaired by **Michael Kergin**, Senior Advisor to Bennett Jones LLP, former Ambassador to Washington and former Foreign Policy Advisor to the Prime Minister.

The goal of the seminar was to achieve a cooperative, disciplined process for thinking through how changes in the global order over the next five years could bear on Canadian foreign policy. Thus, the morning session considered key trends in today's global environment, as well as possible discontinuities. The opening speaker, **Mathew Burrows**, Counselor to the National Intelligence Council of the United States, drew from the Council's *Global Trends 2025* in describing the changing agenda of issues, the way the players are being reshuffled and the consequent governance challenges. **Fen Hampson**, Director of the Norman Paterson School of International Affairs of Carleton University, focused on political dimensions of the current international order and forces stressing that order. The third speaker, **David Crane**, global issues columnist and author, discussed economic and environmental aspects of the shifting global landscape.

The afternoon session turned its attention to how changes in the world order between now and 2014 will influence the achievement of Canada's foreign policy goals. To provide a launching pad for the discussion, **Thomas Townsend**, Executive Head, Policy Research Initiative, Government of Canada, set out some of the salient national characteristics of Canada in the coming decade. The second speaker, **Paul Heinbecker**, Distinguished Fellow, the Centre for International Governance Innovation (CIGI) and former Ambassador to the United Nations, discussed Canada's political and security relations in the new global order. Finally, **John Curtis**, also a Distinguished Fellow at CIGI and former Chief Economist, Foreign Affairs and International Trade Canada, addressed the subject of Canada's economic, financial and trade policies in the new order.

Twenty-two participants, half from the federal government and half from outside government, listened to the presentations and joined the discussions that followed. This report was prepared by a team of rapporteurs and conveys their assessment of the principal conclusions reached. The seminar was held under the rule that views expressed therein should not be attributed to the speaker either in this report or in the published comments of participants afterwards.

Economics Colliding with Politics: The World in 2014

The current financial crisis pervades the international system. No country is in a position to take over from the former drivers of global growth. No country is immune from the effects of the crisis. We are all on the same escalator. The crisis will have significant, but as yet not easily discernable, consequences for world politics in 2014 and for the domestic politics of states. In the wake of massive monetary expansion we could be in for higher interest rates. We are certainly going to see regulatory regimes that require much greater accountability from the corporate world. Many countries are going to be under fiscal constraints that will drastically reduce their room to manoeuvre and could force them to break long standing international commitments.

A related finding is that the progress of globalization has recently become less certain. There is a growing danger of the world hiving off into regional trade blocs. An increasing number of preferential and regional trade agreements risks higher business costs. More significantly, protectionism is gathering force as countries confront huge job losses.

Climate change is akin to the financial crisis in that it will affect almost everything else. Climate change will have particularly profound impacts on water, food and resource issues. The transition out of fossil fuels will not have made significant progress by 2014. Notwithstanding the push for self sufficiency, oil consumers are getting more dependent on OPEC oil producers.

Discussing conflicts that might break out in the future, seminar participants focused their attention on nuclear proliferation, terrorism and the potential for intra-state warfare. Freedom is declining in a number of states. Non-traditional security problems have also moved to the fore. Terrorists may have lost ideological appeal, and more stringent financial regulation is drying up some of their financing, but their access to technology renders their actions more lethal. The prospects for putting into practice the doctrine of the Responsibility to Protect are not good.

Religion is gathering force in domestic and international affairs. Religious organizations are gaining clout and for many people foreign policy issues are inseparable from religious doctrine and values.

Demographics underpin most global trends. By 2014 there will be half a billion more people. The problem of aging populations is going to hit the European

Union, North America and particularly Japan. This problem will only begin to affect China after 2014 and India's population will be on the rise for years after that. Demand for social services will grow at the same time as resources diminish, exacerbating governments' fiscal problems. The developed countries will be trying to draw on the workforces of other countries. Will they experience an internal backlash against immigration that will make them less inclined to welcome newcomers from abroad?

We have by no means experienced all the consequences of the information revolution. The Internet is growing as an entertainment, social and research medium and as an instrument for novel forms of political organization and action. The Internet also puts a weapon in the hands of terrorists, hackers, virus-creators and governments attempting to impose controls on their citizens.

It is difficult to predict wide variance in possible outcomes with a time horizon that is only five years off. Given what we have experienced in the past decade, however, totally unforeseen events cannot by any means be discounted. Moreover, there is still room for innovative and assertive leadership to shape the international environment and the policy responses that governments make to it.

End of the Anglo-American Order: The Players in 2014

In the near future, the United States will remain the world's foremost power, wielding influence in almost all areas of international politics but diminished by the financial crisis, the transfer of wealth to emerging economies and a loss of prestige. The U.S. will be unchallenged in its possession of military strength but this will be of less utility. Confronting an asymmetric threat of terrorism, Americans are going to be very security-minded. The U.S. dollar remains the major reserve currency for the moment but there are signs that it will have competition soon. Within the western hemisphere the attention of the U.S. is going to be fixed more and more on Mexico on account of drug and related security problems, the migration of Mexican nationals north and the threat of American jobs going south.

By 2014 we will be further along the road to a multipolar world. The influential players are no longer all in the North. Notable examples of rising states are China and India in Asia and Brazil in the western hemisphere. The source of their power is economic and they are going to provide tough competition for western countries. They have leapfrogged to the latest technology and high

standards of educational attainment. Sovereign wealth funds are new sources of capital. There will be new financial centres, challenging New York and London. At the same time, Russia will be reluctant to cede its role in the top circle, and the European Union and its key member states remain significant players in many areas.

We have to understand the perspectives and motivations of the emerging states. They are exemplars of, and advocates for, a model of state-led development that is quite different from western models and more compelling to many countries than democracy. Old patterns of international behaviour are being altered though, under present and currently anticipated leadership, China and India are status quo powers. Asian regional cooperation is on the way but will be far from fully developed by 2014. Some Asian countries have accumulated more capital because they don't want to be subject to the International Monetary Fund (IMF). We are witnessing growing South-South trade and investment. At the same time, we should not exclude the possibility of novel alignments between North and South, such as the close relationship that has arisen between the U.S. and India.

By no means are all developing countries rising. Inequality has accelerated across the world. The problem of failed and failing states persists. Widening inequality within countries – half the world's population subsists on \$2 a day or less – is a festering source of instability, conflicts and terrorism, and makes sustainability harder to attain. Not surprisingly, it is difficult to convince the poor of the benefits of democracy.

Non-state players are becoming increasingly important and have to be factored into the international order. They include non-governmental organizations, religious organizations, drug tsars and terrorist networks that can be incubated in sub-Saharan Africa and in the Muslim world and, as experience has shown, have also emerged in the west.

How Do We Manage the World? Governance in 2014

International governance is the overriding issue. Seminar participants recognized the enormous difficulty for governments and international organizations of staying on top of problems that are going to be even more numerous and intractable in 2014 than those of today. The present complement of international institutions is not up to the task. This is not simply a problem of devising new models of governance. The problem is how to get national

governments to work together to bring about reform. Moreover, international and domestic laws are not well positioned to deal with asymmetric conflict. Ideas of equity and reciprocity that are part and parcel of multilateralism are under challenge. International institutions sometimes act at cross purposes. Nevertheless, the best way out of the morass would be governance reform, managed so as to achieve desirable change at the same time as ensuring necessary stability.

Participants also agreed that a major flaw in current governing mechanisms is their lack of inclusiveness. The emerging powers are partly shut out. Europe, on the other hand, is over-represented in the IMF and the World Bank. New players have to be brought in as equal partners and have to be part of the process of designing, or redesigning, institutions. We need an organization wider in membership than the G-8 and more efficient than one based on universal membership. The G-20 forum, perhaps a “variable geometry” G-20, which mandates different groups of stakeholder countries to handle specific issues, would be an excellent vehicle for this purpose. At the same time, it is doubtful that rising states will be keen to shoulder the burdens of a larger and more prominent role.

The state has acquired renewed legitimacy as a result of the terrorist challenge and, more recently, the financial and economic crisis. Paradoxically, this has occurred just as new modes of mobilizing political action are coming to the fore. The collapse of the Berlin Wall in 1989 and the succeeding “colour revolutions” showed the power of private citizens, in certain circumstances, to change situations they find intolerable.

The Obama Administration’s renewed interest in acting multilaterally is heartening but the jury is still out on whether the Administration means what it says. Much time and thought will be needed to devise new institutions. The Bretton Woods institutions did not spring into life at a 1944 meeting but were the result of years of reflection in the period between the wars. Even with careful planning, progress toward new systems of governance will hardly be smooth and little can be expected to have been accomplished by 2014.

Do We Matter Internationally? The Implications for Canada

A portrait of Canada as it will be in the next decade shows the effect of global trends being moderated by distinctive Canadian characteristics. Canada will experience the impacts of climate change, including increased navigability of Arctic marine waters and increased water scarcity. The economic recession is

accelerating the restructuring of the Canadian economy, as the service sector expands and manufacturing declines. Domestic economic growth will be uneven, favouring Western Canada, on account of rising global demand for resources. Also, growth will be hampered by an aging population and a consequently lower labour supply. The importance of the U.S. to Canada will be no less than today. There will be a marked increase in the degree to which Canada is multicultural, multi-linguistic and multi-religious. Global governance changes will be mirrored domestically as citizens build new institutions tangential to governments at local and regional levels.

The seminar was invited to consider two very different scenarios that illuminate how global trends might influence Canada's strategic choices. In the first or "status quo" scenario the U.S. takes the necessary corrective action in regard to its foreign/domestic balances, the international role of the U.S. dollar is reasserted (taking pressure off the Canadian dollar, the euro and the yen) and the American capacity for innovation is once again reflected in robust economic growth. China and India may flourish but the U.S. remains the predominant power. The Canadian policy framework remains built around a largely integrated North American platform in the global economy and Canada is able to stick with its three trade policy priorities, pursuing its interests in multilateral, bilateral and regional forums as circumstances dictate.

The second scenario foresees more dramatic change. Inter-regional trade and investment increasingly dominate global trade. Global value chains break down on account of high transportation and energy costs and strengthened security measures. Regions take divergent regulatory paths and there is greater stability of exchange rate relationships within them than between them. U.S. growth is moderated by fiscal consolidation, the re-building of its domestic savings, structured adjustments to the technological leadership newly acquired by China and India, and the need to take action to protect the environment. This is a much more uncomfortable situation for Canada, which finds itself locked into North American regulatory norms and thereby hampered in its efforts to penetrate increasingly attractive markets abroad.

Whether or not the United States has reversed its decline by 2014, Canada will continue to be vulnerable to protectionism and security initiatives emanating from that country and to the vagaries of American political processes that never end. There will be a constant danger of being "sideswiped" by actions taken by the Americans in their own interests. Thus, there remains much to be accomplished in deepening the bilateral relationship, seeking accommodations in such areas as

standards and vigorously advocating Canadian interests throughout the length and breadth of the U.S. A narrowly focused continentalism, however, runs counter to Canadian interests and undermines the operation of integrated global supply chains. The seminar concluded that, in a multipolar world, Canadian policy must proceed on bilateral and international tracks simultaneously.

Participants were agreed on the urgency of the climate change issue and on the timeliness of tackling that issue. Global climate change negotiations could be high on the agenda in 2014. One viewpoint was that Canada would find it hard to play a leading role because there would still be no technology that effectively and economically curbs greenhouse gases emitted by oil sands development.

Some seminar participants found the prospects for 2014 daunting, even expressing doubt that there was anything Canada could do to shape its environment. It was questioned that a strategic framework for Canadian policy would serve any useful purpose given that the principal contours of the world five years from now are unknowable. We could be standing on the edge of something very dark and deep. The point was also made that Canada suffers from weakness of will in international affairs. Canada could find itself carried along by international currents it could not, or would not attempt to, withstand.

Other participants drew confidence from Canada's internal strengths. Some wanted foreign policy to project domestic values, such as diversity and community, abroad. It was argued that important actors in domestic affairs and actors with fresh outlooks and exciting ideas should be introduced to the domain of foreign affairs. In particular, the provincial governments, civil society and young people should be brought into processes of policy deliberation and policymaking to bolster support for what Canada does internationally and ensure consistency of foreign and domestic policies.

There was much agreement with the view that Canada should overcome a smart power deficit by investing in its foreign policy assets. One way to compensate for lack of material clout is with the power of ideas, which can be a potent foreign policy instrument if employed in the right setting. The G-20 is a setting where Canada can be influential. The likely level of uncertainty in 2014 argues strongly for suppleness of intellect and openness of mind to non-traditional approaches. Multi-faceted diplomacy can move ideas ahead under challenging circumstances. Diplomats will probably have to acquire an aptitude for working with complex networks of state and non-state actors, each one organized around a different issue.

The seminar developed a partial foreign policy agenda aimed at tackling the issues that might be foremost in 2014: strengthening and reform of international institutions, more strenuous efforts to bolster the integrity of the Non-Proliferation Treaty regime, the advancement of democracy and a development policy that goes beyond aid to take in trade, investment, technology transfer and other linkages with the developing world. A foreign policy agenda should not, of course, focus exclusively on 2014. We neglect the long term at our peril. Five years from now the effects of chronic inattention to science and technology on Canada's part will not be fully apparent but governments ought to be investing heavily in innovation both now and then. The same is true of an effective policy to combat climate change.

Reflections on the Seminar¹

The interest demonstrated by seminar participants shows that we are thinking more about the future. Moreover, our attitude to the future is changing. Developments in the present decade, beginning with 9/11, building with the transfer of wealth from west to east and climaxing with the economic and financial crisis have made credible the assertion that a major transformation of the international environment is under way. No one challenges this assertion though, at the same time, few dare to describe the transformation with any precision. We observe greater respect for the tenuousness of international stability and for the uncertainty of progress towards enhanced living standards. The beneficial consequence of this may be that we are better prepared psychologically for totally unforeseen events that have dramatic consequences. On the negative side, we may overreact to developments that are not as momentous as they may initially appear and both governments and individuals may be hesitant to make commitments if there is doubt in the durability of the status quo.

We normally think of a good foreign policy as one that responds effectively to the international environment. Yet it is not always easy to draw a connection between the global landscape and the factors that should shape Canada's foreign policy. One reason for this is that in certain areas Canada wields insufficient clout to influence its environment and must simply take what comes. Over a vast area of foreign relations too, the effect of global issues and trends on Canada is mediated through its relationship with the United States, which often looms a lot larger than global factors. It remains important for us to understand the global pressures impinging on the U.S. and, in a world of power shifts and festering enmities, there is always scope for nimble, well-plugged-in diplomacy with good ideas, as a way of building linkages, garnering credits and advancing defined Canadian interests. This conviction strengthens our view that illuminating the relationship between the international environment and Canadian policy is a vitally important challenge confronting our initiative, a challenge we will take up again in the forthcoming conference on *The World in 2014*.

¹ These thoughts have been contributed by the organizers of the Seminar.

2014: The CIC Ottawa Foreign Policy Initiative

The seminar on March 12 was the first undertaking of *2014: The CIC Ottawa Foreign Policy Initiative*, which was started by the National Capital Branch of the CIC as a means of engaging more closely with policymakers and working with government, the universities, NGOs, the media, business and the professions to advance foreign policy analysis and debate. The Initiative, which has received a two-year grant from the International Development Research Centre, is mounting a series of private, by-invitation-only seminars and a major public conference intended to paint a picture of how the world might evolve between now and 2014, and examine the policy implications for Canada. The following activities are scheduled:

1. A seminar, co-sponsored by the Pearson Peacekeeping Centre, on *Conflict and Security in 2014: How might Canada respond?*, to be held on May 29, 2009.
2. A seminar, co-sponsored by the Centre for Trade Policy and Law, on *Canada's Contribution to IFI Reform*, to be held on June 11, 2009.
3. A seminar, co-sponsored by the CIC's Africa Study Group, on *Economic Growth and Development in Africa*, to be held in September, 2009.
4. A public conference on *The World in 2014*, to be held in November, 2009.

The direction taken by the Initiative is set in consultation with an Advisory Council headed by **Mel Cappe** (President and CEO of the Institute for Research on Public Policy and former Clerk of the Privy Council). Members of the Council are: **Derek H. Burney** (Senior Strategic Advisor, Ogilvy Renault LLP and former Ambassador to Washington), **Louise Fréchette** (Distinguished Fellow, Centre for International Governance Innovation and former Deputy Secretary-General of the United Nations), **Anne Golden** (President and CEO, Conference Board of Canada), **Fen Hampson** (Director, Norman Paterson School of International Affairs, Carleton University), **Peter Harder** (Senior Policy Advisor, Fraser Milner Casgrain and former Deputy Minister of Foreign Affairs), **Luc Juillet** (Director, Graduate School of Public and International Affairs, University of Ottawa), **Gaëtan Lavertu** (former Ambassador and Deputy Minister of Foreign Affairs), **Alex Neve** (Secretary-General, Amnesty International Canada), **Don Newman** (Senior Parliamentary Editor, CBC), **Irvin Studin** (Osgoode Hall Law School), **Jodi White** (former President, Public Policy Forum) and **Elizabeth Yeh** (Publisher, AsiaNetwork).