2a vi 12

CPSA annual conference
Edmonton
June 15, 2012.

Stephen Clarkson and Abdi Aidid

Caught in the Middle:
Canada in the Changing Configuration of Global Regions
©
(first draft, please do not quote without permission)

Abstract
In the context of the failure of the World Trade Organization (WTO)'s Doha Round, a proliferation of bilateral, state-to-state trade and investment negotiations is taking place in parallel and sometimes in conflict with the strengthening phenomenon of regionalization. Having adopted a strategy in the 1980s designed to anchor itself within an integrated North American regional economy, Canada finds itself facing the failure of its last two and a half decades' of foreign trade and investment strategy.

Looking inside North America, the country is being disconnected from its own region. The United States' economic decline and rising protectionism threaten Canada's primary export market. The American shift to an anti-terrorist security paradigm further inhibits the growth of those economic flows on which Canada's prosperity has long depended.

Looking outside North America, Canada is being pulled westwards, southwards, and eastwards. Demand from rising Asian markets for Canada's unprocessed resources is beckoning it westwards. It is being driven south by Canadian mining transnationals' need for politically protected opportunities. At the same time, it is being drawn eastwards to Europe and further east to India by the hope for comprehensive economic agreements.

The paper addresses the significance – or lack of significance – of the trade agreements that have been negotiated and those that are being contemplated.

I Context: the Rise and Fall of Canada's "Third Option"

Shocked by President Richard Nixon's refusal to exempt Canada from his unexpected August 1971 surtax on all US imports, Prime Minister Pierre Trudeau instructed the Canadian government to reconsider its international economic strategy. The next year, the Minister of External Affairs published a policy document recommending Canada opt for one of the three scenarios it laid out. The first alternative, maintaining the status quo, was deemed unacceptable because it left Canada vulnerable to Congress or the White House taking further nationalist measures. The second – enhanced integration in the American market – was out of the question since it implied losing even more national autonomy at a time when Canadian nationalism was enjoying widespread support. The third was the document's preference: diversifying Canada's economic ties with the rest of the world. This so-called "Third Option" was never formally adopted by the Trudeau government because of resistance from its economic departments, which opposed the

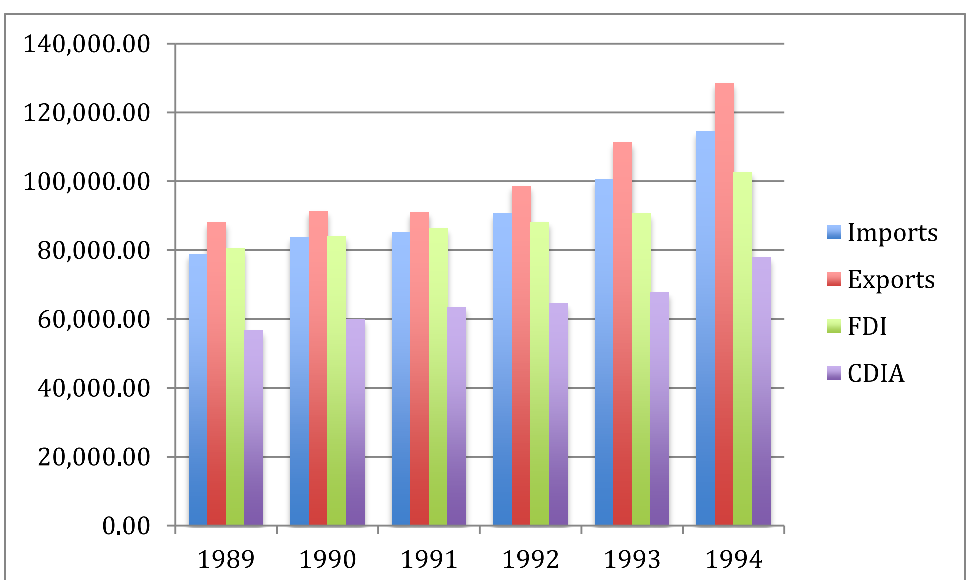
Option's interventionist industrial-strategy corollary. It was however implemented in Canada's foreign policy through framework economic agreements negotiated in the mid-1970s with the European Community and Japan, the then-rising Asian economy.

But there were many slips between cup and lip. The private sector was not interested in coping with the linguistic, political, and cultural challenges presented by overseas markets given that businesses could so easily deal with customers and suppliers in the United States to whose market they had geographically privileged access. Although established by Trudeau in 1982, the Royal Commission on the Economic Union and Development Prospects for Canada tolled the bell for economic diversification. Its chairman, Donald Macdonald, was convinced not only that the Third Option had failed diplomatically but also that the Trudeau government's somewhat activist industrial strategy had failed to generate a competitive economy. Instead, curbing the government's capacity to regulate and fostering the market's deepening integration with the United States provided Canada the key it needed to unlock future economic success. The Macdonald Commission's 1985 report argued strongly – and, in the opinion of Canada's political and economic elites, convincingly – that Canada was facing a historic dead end as an economy without access to a major global market and so had no choice but to negotiate its own free-trade agreement with the United States in order to guarantee its access to the world's largest, most innovative market.

II Historical Watershed: the Rise and Fall of Canada's Second Option

The Canada-United States Free Trade Agreement was highly controversial and deeply polarizing but, following a bitterly fought election campaign in 1988, which the Progressive Conservative government of Prime Minister Brian Mulroney lost in votes (43per cent) but won decisively in seats (57 per cent), it came into effect on January 1, 1989. After a few years of severe job losses in industries that had lost their tariff protection, the Canadian economy recovered, its exports primarily boosted by an extraordinarily weak Canadian dollar.

Canadian Trade and Investment with United States 1989-1994 (in millions USD)



Trade and Investment with United States 1989-1994 (in millions USD)[1]

Year	Imports	Exports	FDI	CDIA
1989	78,808.90	87,953	80,427	56,578
1990	83,673.80	91,380.10	84,089	60,049
1991	85,149.80	91,063.90	86,396	63,379
1992	90,594.30	98,629.80	88,161	64,502
1993	100,444.20	111,216.40	90,600	67,677
1994	114,438.60	128,405.90	102,629	77,987

By 1994, the United States accounted for 75 per cent of all Canadian trade, including a staggering 81 per cent of all exports, up from 71 per cent in 1989. FDI from the United States remained the same, as American investment comprised 66 per cent of all of Canada's incoming FDI in 1989 and 1994. [2]

When Mexico signed onto a toughened, "North American" free trade agreement, which came into effect on January 1, 1994, the Canadian political, business, and media elites celebrated this step forward in continental integration. There was indeed the predicted "giant sucking sound" of companies moving their assembly and production facilities south to cut their costs thanks to the low-cost labour and unregulated environmental conditions of the notorious *maquiladora* assembly factories. But overall, results were positive both for Canada and the newly constituted three-state region.

[1] US Census Bureau, "Foreign Trade." Accessed June 1, 2012. http://www.census.gov/foreign-trade/balance/c1220.html.
[2] "Foreign Direct Investment in Canada" Statistics Canada, Table 376-0051

The North American economy's share of global GNP grew in the six years after NAFTA from 29 per cent to 35 per cent, while its global share of incoming FDI grew from 23 per cent to 28 per cent.[3]

Canadian Trade and Investment with United States 1990s (in millions CAD)[4]

Year	Imports	Exports	FDI	CDIA
1990	98,066	105,635	84,089	60,049
1991	98,527	105,736	86,396	63,379
1992	96,470	125,670	88,161	64,502
1993	113,846	150,657	90,600	67,677
1994	137,845	183,303	102,629	77,987
1995	150,682	207,753	112,948	84,562
1996	156,953	223,177	121,943	93,939
1997	184,414	243,888	128,978	110,707
1998	203,578	269,909	146,893	133,267
1999	215,575	308,076	176,045	151,775
2000	229,660	359,289	193,651	177,943
Totals	1,685,616	2,283,093	1,332,333	1,085,787

Source: Statistics Canada, Industry Canada, DFAIT Foreign Direct Investment Statistics and US Census Bureau

Canadian Trade and Investment with Mexico 1990s (in millions CAD)

Year	Imports	Exports	FDI	CDIA
1990	N/A	N/A	-13	245
1991	N/A	N/A	-21	199
1992	2,774	813	60	451
1993	3,710	826	154	530
1994	4,525	1,084	177	1,073
1995	5,353	1,161	161	948
1996	6,035	1,259	N/A*	1,933
1997	7,022	1,277	N/A*	2,163
1998	7,682	1,467	117	2,864
1999	9,536	1,613	101	3,325
2000	12,060	2,034	215	3,857

*StatsCan has listed these figures as confidential.

[3] United Nations Conference on Trade and Development, "UNCTADStat." Accessed 31 May, 2012. http://unctadstat.unctad.org.
[4] Industry Canada, "Canadian Trade By Industry (NAICS Codes)." Accessed May 28, 2012. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CDN&cacheTime=962115865 and Statistics Canada, Table 376-0051

Source: Statistics Canada, Industry Canada and DFAIT Foreign Direct Investment Statistics

These bullish figures did not predict a trend. Although the United States remained the world's largest market, it was not the world's fastest-growing one. All other things being equal, Canada was doomed by its 76 per cent trade dependence to a less-than-world-average growth rate. But of course other things were not equal. For reasons far beyond the remit of this paper to analyze, the world's unchallengeable superpower experienced two catastrophic shocks near the beginning and towards the end of the 2000s which constituted a tipping point towards its rapid decline.

Al Qaeda's attack provoked Washington into launching two wars abroad, in Afghanistan and Iraq. The direct costs for these losing engagements were augmented by the indirect economic effects of the Bush administration's war on terror at home, which had significantly restraining consequences for its cross-border traffic of goods and people.

The hubris of global dominance may have induced the attacks of September 11, 2001. The hubris of market deregulation at the political level and the major financial institutions' unscrupulous exuberance at the economic level precipitated the sub-prime crisis of 2008 whose lasting effects put the American economy on life-support. The cash-strapped Obama administration was then unable to resist the Buy-America demands of US senators and representatives. President Obama was equally unwilling to oppose the anti-dirty-oil agitation of American environmentalists lobbying against the Keystone pipeline which was projected to deliver Alberta’s tar-sands oil to refineries in Louisiana.

Almost twenty-five years after Canada opted for free trade, the balance sheet since this radical change in direction gives little cause for celebration, and the prospects for further continental integration seem bleak as long as 100 per cent border security against foreign terrorists remains Washington's top policy priority.

The economic balance sheet

The United States' decelerating growth and relative economic decline have been well documented by Earl Frye,[5] and the impact of US anti-terrorist and anti-narcotics border-security measures on tri-national North America's relative decline in the 2000s has been documented by Robert Pastor who pointed out that the North American economy’s share of global GNP fell back in the nine years after 9/11 from 35 per cent to 29 per cent. Its global share of incoming FDI stayed between 20 and 21 per cent.[6]

As for Canada's own trade and investment history with North America for the 2000s, the figures are not what free trade’s boosters had anticipated in the 1980s.

---

[5] Earl H. Fry, *Lament for America: Decline of the Superpower, Plan for Renewal* (Toronto: University of Toronto Press, 2010).

[6] Robert Pastor, *The North American Idea: A Vision of a Continental Future*. Oxford: Oxford University Press, 2011. United Nations Conference on Trade and Development, "UNCTADStat." Accessed 31 May, 2012. http://unctadstat.unctad.org.

Canadian Trade and Investment with United States 2001-2010 (in millions CAD)[7]

Year	Imports	Exports	FDI	CDIA
2001	218,290	351,751	219,927	188,481
2002	218,497	345,566	231,566	199,992
2003	203,822	326,700	238,057	169,605
2004	208,987	348,144	243,328	198,460
2005	215,155	365,741	251,477	202,398
2006	217,845	359,135	265,096	224,020
2007	220,890	355,610	288,257	226,116
2008	227,246	375,480	292,364	290,830
2009	186,803	270,091	299,340	255,397
2010	203,389	299,075	318,412	253,417

Source: Statistics Canada, Industry Canada

Canadian Trade and Investment with Mexico 2001-2010 (in millions CAD)[8]

Year	Imports	Exports	FDI	CDIA
2001	12,123	2,755	167	3,291
2002	12,744	2,420	182	3,201
2003	12,190	2,212	214	3,047
2004	13,435	3,096	287	2,649
2005	14,595	3,366	322	4,397
2006	16,019	4,376	232	5,157
2007	17,179	4,958	294	5,100
2008	17,916	5,844	285	4,781
2009	16,536	4,803	169	4,837
2010	22,710	5,008	191	4,905

Source: Statistics Canada, Industry Canada

The disconcerting bottom-line fact is that Canada has declined from being the seventh largest economy in the world in 1984[9] at the end of the Trudeau era and so still deserving its place in the G-7 Economic Summit of world leaders to being fifteenth largest in

[7] Industry Canada, "Canadian Trade By Industry (NAICS Codes)." Accessed May 28, 2012. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CDN&cacheTime=962115865 and Statistics Canada, Table 376-0051

[8] Industry Canada, "Canadian Trade By Industry (NAICS Codes)." Accessed May 28, 2012. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CDN&cacheTime=962115865 and Statistics Canada, Table 376-0051

[9] World Bank, "Data." Accessed 28 May, 2012. http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries?order=wbapi_data_value_1984 wbapi_data_value&sort=desc&page=5

2012[10] and facing the prospect of not even qualifying for the G-20 Leaders' Summit as other countries, largely in the global South, outpace its growth rate.

The political outcome

In world-regionalism theory, countries make economic integration agreements with their neighbours, with whom they formerly competed, in order to gain more political clout on the global stage as members of a regional grouping and in order to achieve greater economic competitiveness globally. Canadian trade negotiators may well have believed the rhetoric of their American counterparts about the new North American entity they were creating. Although the three governments shared the neo-conservative consensus rejecting any significant institutionalization of the new North America that NAFTA was creating, the expectation – at least in Ottawa and Mexico City -- was that the new solidarity created by the trilateral accord would spill over into future international negotiating solidarity.

This NAFTA promise of a trilateral coherence in extra-continental negotiations did manifest itself to begin with. At the Summit of the Americas meeting in Miami in May 1994, when President Bill Clinton announced his proposal to incorporate Central and South America within NAFTA's embrace by negotiating a Free Trade Area of the Americas, Canada and Mexico were onside – albeit reluctantly, since they feared losing what special access to the American market they had just gained in exchange for the concessions they had made to Washington.

This qualified solidarity proved short-lived. Washington was soon negotiating separately with the Central-American republics, and Mexico discovered to its dismay that CAFTA (ratified by all but Costa Rica in 2006)[11] gave its southern neighbours superior access in the American market for their textiles than what it had gained with NAFTA.

III Prospects for the Third Option Revisited

The classic question "What is to be done?" still remains pertinent, though in Canada's case, the What question has been answered by the electorate's giving the country's Conservative government a parliamentary majority. "What" will be maximum trade and investment liberalization following the prescriptions of the neoconservative paradigm. The next question is "With whom is this What to be accomplished?" Here the government's search for partners with whom it might negotiate is becoming clear.

Continental integration

As a global-warming denier and environmental laggard and as an unquestioning Israel supporter, Prime Minister Stephen Harper has little political capital in Barack Obama's Washington, particularly as the two governments wash their hands of saving Afghanistan. This impotence in the White House became plain to the world when the President turned

---

[10] CIA World Factbook, "Country Comparison: GDP." Accessed 28 May, 2012 https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html.

[11] Jaramillo, Carlos. *Challenges of CAFTA: Maximizing the Benefits for Central America*. Washington: The World Bank, 2006.

a deaf ear to Harper's lobbying and declined to approve the construction of the Keystone pipeline.

Since the Obama administration has maintained the US government's high priority for anti-terrorism security, the likelihood of Washington thinning its border constraints on trade and travel remains low, as the "Shared Vision for Perimeter Security and Economic Competitiveness Action Plan" announced by the two governments in December 2011 suggests, given its many pilot projects, its lack of budgetary commitments, and its already missed deadlines.

Harper has made it clear he does not want to cooperate with Mexico in developing a trilateral North America. But reverting to a US-controlled hub-and-spoke governance system seems likely to diminish Ottawa's presence and further weaken its voice in Washington.

While reason and long-term self-interest would recommend that the United States give top priority to nourishing its relationships with the two countries – its geographical neighbours – from which it gains the most economic support and military security,[12] partisan polarization ensures that short-term electoral expediency and business' lobbying will prevail at the expense of North America developing the kind of trinational solidarity that analysts of United States' continental interests such as Robert Pastor propose .

Economic Diversification Revisited

Ottawa's undeclared Third Option Revisited strategy is driven by one globally uncompetitive and three competitive economic motors.

1.Alberta's oil.

First and foremost comes Alberta's "unconventional" oil extracted from its tar sands by expending huge quantities of clean natural gas and ground water and causing vast emissions of greenhouse gases with direct global-warming effects. The Liberals' rhetoric under Prime Ministers Jean Chrétien and Paul Martin was as environmentally progressive as it was programmatically regressive because of their fear of Alberta's ire should they do anything that would slow down the fastest possible exploitation of its near-limitless reserves of bitumen-impregnated earth. Now that federal political power has shifted decisively to the West (John Ibbitson), Ottawa's passive tolerance has morphed into defiant support for producing "non-conventional" petroleum.

A pipeline will be driven over native reserves and against environmentalists' protests so that Alberta's oil can be shipped to Asian customers who do not ask environmentally difficult questions.

[12] Stephen Clarkson and Matto Mildenberger, *Dependent America? How Canada and Mexico Construct US Power* (Toronto: University of Toronto Press and Washington: Woodrow Wilson Press, 2011).

The Harper government needs no trade or investment agreement to open the door to incoming Chinese investment capital if this will further consolidate Canada's position as an "energy superpower." In sum, the demand from rising Asian markets for Canada's unprocessed resources presents market opportunities that require little federal-governmental action in negotiating international economic agreements.

2. Courting the two Latin Americas on behalf of the Canadian mining sector

Reliable figures on foreign direct investment are difficult to obtain, but analysts agree that Canada is one of the world's largest exporters of mining capital. Since Canadian transnational corporations mainly develop their mines in third-world countries characterized by volatile politics, high levels of corruption, and governance incapacity, these TNCs have a strong interest in gaining the political clout that comes from investment-protection rules and the associated private international arbitration processes that have been institutionalized under the United Nations' UNCITRAL and the World Bank's ICSID.

The problem this poses for Ottawa is who to find as a bargaining partner. Latin America is a prime candidate in principle, though the relative size of Canadian business' engagement there varies from very considerable to quite modest.

Canadian Trade and Investment with South America 1992-2011 (in millions CAD)[13]

Year	Imports	Exports	FDI	CDIA
1992	1,770	1,888	300	3,093
1993	2,023	2,179	269	4,346
1994	2,564	2,826	225	6,032
1995	2,984	3,418	376	7,855
1996	3,224	3,507	347	9,952
1997	3,755	4,404	372	12,603
1998	3,934	3,704	441	15,287
1999	4,076	2,780	412	17,091
2000	4,870	3,123	724	21,295
2001	5,094	3,040	997	22,536
2002	5,321	2,327	870	22,555
2003	5,110	2,233	1,090	20,266
2004	6,784	2,747	1,992	21,196
2005	9,672	3,331	3,168	20,717
2006	10,420	3,832	12,979	20,975
2007	10,629	4,618	14,524	21,975
2008	10,758	6,092	14,955	31,504
2009	10,762	4,405	13,303	34,323
2010	13,177	5,595	17,421	36,253

[13] Industry Canada, "Canadian Trade By Industry (NAICS Codes)." Accessed May 28, 2012. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CDN&cacheTime=962115865 and Statistics Canada, Table 376-0051

2011	15,249	6519	18,785	37,849

Source: Statistics Canada, Industry Canada

In the mid-1990s, Chile, which had an aversion to joining its neighbours in regional integration agreements in preference for a strategy of negotiating bilaterally with countries overseas, was considered the most likely candidate to embrace neo-conservative trade and investment liberalization. Consequently, the Canada-Chile Free Trade Agreement of 1997[14] followed the main lines of the NAFTA template. As subsequent data showed, the CCFTA had positive consequences both for Chilean exports of agricultural products and unprocessed raw materials and for Canadian direct investment abroad (CDIA) in Chile.

Canadian Trade and Investment with Chile 1992-2011 (in millions CAD)[15]

Year	Imports	Exports	FDI	CDIA
1992	202	155	N/A	482
1993	209	213	N/A	1,225
1994	238	315	N/A	1,878
1995	279	387	N/A	2,673
1996	342	416	N/A	3,281
1997	326	392	N/A	3,876
1998	360	340	N/A	4,878
1999	422	360	N/A	5,049
2000	555	444	9	5,421
2001	641	369	N/A	6,144
2002	670	324	N/A	6,639
2003	886	324	N/A	6,024
2004	1,309	360	N/A	5,636
2005	1,663	417	N/A	5,330
2006	1,853	473	N/A	4,626
2007	1,687	765	50	7,067
2008	1,794	724	N/A	10,856
2009	1,731	645	N/A	13,263
2010	1,872	587	N/A	12,038
2011	1,911	819	N/A	12,137

Source: Statistics Canada, Industry Canada

What impedes Ottawa’s search for further negotiating partners difficult is the evolution in South America of regional governance systems which suggest why Canada has done

[14] Signed on 5 December 1996 and came into effect 5 July 1997 http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/chile-chili/index.aspx?view=d (accessed on ??)
[15] Industry Canada, "Canadian Trade By Industry (NAICS Codes)." Accessed May 28, 2012. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CDN&cacheTime=962115865 and Statistics Canada, Table 376-0051

better with smaller countries in a loose regional system than bigger ones in a tighter system.

The smaller picture: progress with Andean nations

The Community of Andean Nations (CAN) does not prevent its members from negotiating separate bilateral agreements with other partners. Ottawa has accordingly been able to negotiate trade accords, and, more important for the prospects of CDIA, Foreign Investment Protection Agreements (FIPAs) with CAN's two larger members: Peru and Colombia.

The Canada-Peru Free Trade Agreement came into effect in August of 2009, two years after the two parties first signed an FIPA.

Canadian Trade and Investment with Peru 1992-2011 (in millions CAD)[16]

Year	Imports	Exports	FDI	CDIA
1992	95	99	N/A	N/A
1993	64	97	N/A	14
1994	96	88	N/A	120
1995	96	145	N/A	213
1996	126	175	N/A	237
1997	135	312	N/A	1,338
1998	171	188	N/A	1,485
1999	150	175	1	1,981
2000	189	207	N/A	1,925
2001	251	190	1	1,980
2002	293	169	1	2,081
2003	263	134	N/A	1,942
2004	457	165	N/A	2,151
2005	1,358	264	N/A	2,057
2006	2,094	289	N/A	2,154
2007	2,133	331	N/A	2,155
2008	2,455	381	N/A	3,704
2009	2,876	427	N/A	6,169
2010	3,647	476	N/A	6,793
2011	4,403	516	N/A	7,682

Source: Statistics Canada, Industry Canada

The Canada-Colombia Free Trade Agreement was signed in 2011. Though the deal did not come into force until August of that year, trade between the two countries increased

[16] Industry Canada, "Canadian Trade By Industry (NAICS Codes)." Accessed May 28, 2012. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CDN&cacheTime=962115865 and Statistics Canada, Table 376-0051

by 15 per cent between 2010 and 2011. Total trade between Canada and Colombia during the first quarter of 2012 was 30 per cent higher than at the same juncture in 2011.[17]

Canadian Trade and Investment with Colombia 1992-2010 (in millions CAD)[18]

Year	Imports	Exports	FDI	CDIA
1992	131	242	N/A	32
1993	172	240	N/A	32
1994	257	460	N/A	186
1995	372	393	N/A	272
1996	297	512	N/A	342
1997	314	473	N/A	383
1998	364	471	N/A	759
1999	280	255	N/A	842
2000	332	310	3	898
2001	415	366	N/A	820
2002	303	343	N/A	708
2003	374	308	3	270
2004	419	387	3	393
2005	584	448	1	344
2006	640	513	1	414
2007	469	662	1	737
2008	639	709	3	1,053
2009	734	592	1	799
2010	717	642	N/A	906
2011	800	761	1	1,685

Source: Statistics Canada, Industry Canada

The bigger picture: resistance from Mercosur's European-model members:
Like member-states in the European Union, Mercosur’s members cannot carry on separate trade or investment negotiations with other countries, As a result, Canada has been unable to achieve trade agreements and FIPAs with Brazil or Argentina. And because Mercosur also leans towards Europe rather than North America in its policy paradigm, it is not well disposed towards collectively accepting investor-protection agreements that would allow foreign TNCs to take its member governments and their sub-national entities and municipalities to a system of private international arbitration which is strongly biased against labour, environmental, or social regulations that might jeopardize foreign TNCs’ profit-making.[19]

---

[17] Industry Canada, "Canadian Trade By Industry (NAICS Codes)." Accessed May 28, 2012. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CDN&cacheTime=962115865 and Statistics Canada, Table 376-0051

[18] Industry Canada, "Canadian Trade By Industry (NAICS Codes)." Accessed May 28, 2012. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CDN&cacheTime=962115865 and Statistics Canada, Table 376-0051

[19] Gus Van Harten, “Private authority and transnational governance: the contours of the international system of investor protection,” *Review of International Political Economy* 12:4 (October 2005), 600–23.

This problem may become more acute since, in the longer term, CAN's and Mercosur's members have committed themselves to turning the overarching Union of South American Nations, (UNASUR) which they formed in 2008, into a full union by 2019. The probability that UNASUR would parallel the EU's resistance to investment protection is real. This raises the possibility that Chile, Colombia, and Peru may be pressed to abrogate their FIPAs with Canada.

Recent action on the part of a number of South American states suggests an already strong aversion to North American-style investment protection. In the last five years, Bolivia, Ecuador, and Venezuela have each withdrawn from the ICSID Convention, signalling a repudiation of arbitral processes that favour private capital. Bolivia terminated its bilateral investment treaty with the United States on 23 May 2011, partially because investor-state provisions threatened President Evo Morales' program of widespread nationalization. Since Canada's Foreign Investment and Protection Agreements (FIPAs) also allow investors to sue states in ad-hoc, private international courts, it is not a stretch to suggest that Ottawa's bilateral initiatives in South America may face similar resistance.

3. Financial and other services

Canadian companies in the banking, education, and life- and health-insurance services sectors have had considerable success abroad. Ottawa has focused on Brussels and New Delhi in its attempt to gain better conditions for these companies in the European and Indian markets. However, its negotiating dilemma is that, given how open its economy already is, Ottawa has very little to offer other than more access to marketing-board protection of central Canadian dairy and poultry farmers, tendering for government-procurement contracts, and opening provincial and municipal services to privatization through investment by foreign TNCs. This suggests that Canada's interlocutors will have little incentive to give up much increased access to their markets in exchange.

The negotiation of a Comprehensive Economic and Trade Agreement with the European Union has reached its ninth round of negotiation and is likely to conclude before the end of 2012. The European Parliament dismissed out of hand Canada's first-draft request for strong, non-governmental investment protection. Since there is no way that Brussels would be willing to make concessions on agricultural subsidies, the ultimate agreement will be far from "comprehensive." Since stronger intellectual property rights for European pharmaceutical firms was at the top of Brussels' negotiating agenda, Canada will probably concede, even though this will raise the costs of the provinces' already cash-strapped health-care systems.

.

A Comprehensive Economic and Trade Agreement with India is likely to be still less comprehensive. Although the Indian Department of Commerce is the lead negotiator for New Delhi, all final decisions must be made by the Reserve Bank of India which is not known for a neo-conservative proclivity for liberalization. Some assurances of Canadian companies being able to repatriate their profits may be granted, but Canada's low level of trade and investment in India leaves it of minor importance to this rising economy even if the opposite is not true.

4. Central Canada's protected agriculture

Canada's centre of political gravity may have moved to Alberta, but Ontario and Quebec still have the most seats in Parliament, and many of these over-represent rural areas. The Harper government's abolition of the Canadian Wheat Board has done it little political damage, but it has been leery of threatening the livelihood of central Canadian farmers whose marketing boards keep their dairy and poultry farms viable and whose support gave the Conservative Party its majority.

Nevertheless, Canada is requesting a seat at the table of the current trans-regional negotiations known as the Trans-Pacific Partnership (TPP). For New Zealand and for the United States, abandoning its milk, egg, and poultry protection is the price of Ottawa's admission to the talks. Since politicians often use international negotiations to claim they were forced to take politically unpopular actions they would have liked to take in any case, it is not out of the question that the Harper government will give up one of Canada's last significant measures of economic protection in order to join the TPP club from which the United States had originally excluded it.

IV Conclusions Concerning the Third Option Revisited

As a declining middle power which has failed to integrate itself into its immediate geographical region in a way that could have enhanced its capacity on the world stage, Canada appears to have made a historic mistake in opting for maximum economic integration with the United States without a political institutionalization which might have given it some voice in the continent's de facto political capital. After a quarter of a century devoted to resisting global diversification in favour of a Second-Option continental integration, it has reverted to the much-mocked Third Option identified with the much-maligned Pierre Trudeau.

But times have changed and, while North America failed to coalesce on the strength of NAFTA, a global level of economic governance was created in the WTO, and many other continents established regional governance institutions of varying effectiveness. In this constantly changing context, Canada presents itself as a lonely, diminished player stubbornly repeating its trade- and investment-liberalization mantra but facing a world characterized by increasingly impermeable regional borders. With the stalemate in the WTO, Canada cannot look to global governance as the instrument for amending the international economic rulebook in its favour. With other economic regions typically preventing their member states from negotiating economic agreements bilaterally with other countries, Canada appears to be caught in the middle.

Comments welcomed:
Stephen Clarkson, stephen.clarkson@utoronto.ca
Abdi Aidid, abdi.aidid@gmail.com

Appendix: Status of Canadian FTAs, FIPAs and Negotiations

Canadian Free Trade Agreements

Partner	Implemented
Honduras	August 12, 2011
Panama	May 14, 2010
Jordan	June 28, 2009
Colombia	August 15, 2011
Peru	August 01, 2009
European Free Trade Association	July 01, 2009
Costa Rica	November 01, 2002
Chile	June 05, 1997
Israel	January 01, 1997
NAFTA	January 01, 1994

Canadian Free Trade Agreements Being Currently Negotiated

Partner	Date Initiated	Status
Andean Community	Aug-02	Ongoing
Caribbean Community (CARICOM)	Jul-07	Ongoing
Central America Four (CA4)	Sep-00	Ongoing
Dominican Republic	Nov-02	Ongoing
European Union	Mar-04	Ongoing
India	Nov-10	Ongoing
Japan	Feb-11	Ongoing
Korea	Nov-04	Ongoing
Morocco	Jan-11	Ongoing
Singapore	Oct-01	Ongoing
Ukraine	Jun-10	Ongoing
Free Trade Area of the Americas (FTAA)	Nov-05	Ongoing
Turkey	Oct-10	Exploratory Talks

Canadian FIPA Agreements

Partner	Implemented
Argentina	April 29, 1993
Armenia	March 29, 1999
Barbados	January 17, 1997
Costa Rica	September 29, 1999
Croatia	January 30, 2001
Czech Republic	January 22, 2012
Ecuador	June 6, 1997
Egypt	November 3, 1997
Hungary	November 21, 1993
Jordan	December 14, 2009
Latvia	November 24, 2011
Lebanon	June 19, 1999

Panama	February 13, 1998
Peru	June 20, 2007
Philippines	November 13, 1996
Poland	November 22, 1990
Romania	November 23, 2011
Russian Federation	June 27, 1991
Slovak Republic	March 14, 2012
Thailand	September 24, 1998
Trinidad and Tobago	July 8, 1996
Ukraine	July 24, 1995
Uruguay	June 2, 1999
Venezuela	January 28, 1998

Canadian FIPA Agreements Currently Being Negotiated

Partner	Status
Bahrain	Negotiations concluded
China	Negotiations concluded
India	Negotiations concluded
Kuwait	Negotiations concluded
Madagascar	Negotiations concluded
Mali	Negotiations concluded
Cameroon	Ongoing
Cote d'Ivoire	Ongoing
Ghana	Ongoing
Indonesia	Ongoing
Kazakhstan	Ongoing
Mongolia	Ongoing
Pakistan	Ongoing
Vietnam	Ongoing
Tunisia	Ongoing
Burkina Faso	Ongoing
Benin	Ongoing