

# DECONSTRUCTING CANADA IN AN AGE OF GLOBAL COMPETITION

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The perennial Canadian task of balancing federal-provincial powers and responsibilities faces a new challenge in the age of economic globalization. Over the past two decades, provincial and territorial governments have become increasingly active in promoting international trade and investment. From participating in national trade missions to opening commercial offices overseas, sub-national governments have moved directly and even aggressively into international markets. This activity reflects the growing concern about the ability of the federal government to promote provincial and territorial interests effectively. This latest example of paradiplomacy — much broader than Quebec's long-standing efforts to secure international attention — could be advantageous to Canada if it is coordinated properly with federal initiatives.

La quête permanente d'équilibre entre les responsabilités et pouvoirs fédéraux-provinciaux se heurte à un nouveau défi en cette ère de mondialisation économique. Depuis une vingtaine d'années, les gouvernements provinciaux et territoriaux misent en effet de plus en plus activement sur les échanges et les investissements internationaux. Que ce soit en participant à des missions commerciales nationales ou en créant des bureaux commerciaux à l'étranger, ils convoitent aujourd'hui directement et parfois offensivement les marchés mondiaux. Une activité qui traduit leurs doutes sur la capacité d'Ottawa de promouvoir efficacement leurs intérêts. Or cette forme récente de « paradiplomatie », dont la portée est beaucoup plus vaste que les efforts de longue date du Québec pour exister sur la scène internationale, pourrait bénéficier au pays si elle était judicieusement coordonnée avec les initiatives fédérales.

The combination of a minority federal government, the political upheaval of 2008-09, a global economic crisis and the election of Barack Obama as president of the United States has altered Canada's political environment and presented new challenges to the ever-evolving federation. The provinces, while generally supportive of Prime Minister Stephen Harper's support for decentralization, share with the federal government an urgent need to respond decisively to the growing financial challenges. They are doing so in a complex economic environment, one dominated by the forces of globalization, interwoven national attempts at stimulus and bank rescue, and the strong direction being set by the new Obama administration.

The current set of crises and transitions represents yet another test of the delicate balance between national and provincial governments in Canada. The debate about federal-provincial relations is as old as Confederation itself, and

the latest transition reflects in part the periodic reorientation of the relative balance within the federation. The shift from strong provinces to weaker ones, from federal activism to provincial autonomy, has happened in the past and will likely occur in reverse in the future.

The provinces have been asking for greater freedom, in both fiscal and policy terms. Quebec, of course, has taken the lead in promoting provincial rights and has long insisted that Canadian federalism adjust to nationalist demands. Alberta, particularly under former premier Ralph Klein, and Newfoundland and Labrador under Premier Danny Williams have been the dominant provincial proponents of greater provincial authority, and they have been joined recently by Brad Wall of Saskatchewan. Dalton McGuinty, Premier of Ontario, whose province has long benefited from a strong central government, has been advocating for changes in federal-provincial finan-

cial relations, albeit in large measure because of Ontario's recent decline into have-not status.

In 2008, the Harper government sent sharp signals that even greater changes are in the offing. Accepting Quebec's long-standing demand for separate representation in select international organizations promises

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to be the thin edge of the wedge. Lawrence Martin of the *Globe and Mail*, suggesting that the Prime Minister's view of Canada is a "federation of fiefdoms" and describing Harper as "headwaiter to the provinces," argued last July that the Conservatives had rolled back federal spending power, acquiesced to Quebec's always long list of demands and planned even more weakening of the bonds of Confederation. Allowing Quebec to negotiate a separate labour mobility agreement with France was but the latest signal that the autonomy initiative would extend well beyond the boundaries of Canada, although it related to recognizing professional credentials, such as those of doctors and nurses, which are within provincial jurisdiction.

Analysts and pundits began quickly to pick over the political bones of Confederation, some arguing that Harper's strategy will eviscerate federal power and reduce an already diminished sense of national purpose. Others suggest that the move is as politically wily as it is necessary, shoring up nationalist support for the Conservative Party in Quebec, solidifying western backing and responding to the new assertiveness of Newfoundland and Nova Scotia. At the same time, the analysis goes, the government's moves

reflect both national imperatives and global realities, recognizing the growing importance of regions and subnational governments and accepting the reality that national governments are less important in this century than in the last. Both the Liberal opposition and the New Democratic Party have been largely silent on this issue, suggesting

that all political parties understand that provincial autonomy sells better on the hustings than a strong federal presence.

While the battle over the future of federal-provincial relations will remain focused on the staples of Canadian politics — revenue sharing, education, health, infrastructure and regional economic development — the undeclared conflict over Canada's international trading role may be the most crucial element in this debate. Scholars have written extensively about what they describe as "paradiplomacy," or the international engagement of subnational governments, such as states, territories or provinces. International activities by subnational governments are relatively commonplace and generally uncontroversial. Regional state-province-territorial meetings occur regularly. Cultural, recreational and social relationships between non-national entities continue. Sister city arrangements, government-sponsored exchanges of students and politicians, and the extensive interregional and cross-border collaboration that has become standard political fare in the Canadian North are some examples of paradiplomatic activity.

These activities can, however, become heavily and even dangerously politicized. Canadian observers

remember well French President Charles de Gaulle's intervention in provincial-federal relations through his July 1967 "Vive le Québec libre" speech, which inspired Quebec separatists, as even they called themselves. In countries like the United Kingdom (Wales and Scotland), Spain (Basques), the former Yugoslavia (Croatia, Serbia, Albania, Kosovo) and the disintegrating former Soviet Union (particularly the western and southern republics), international activities by subnational governments or groups held (and hold) the potential to destabilize national politics. Compromises are typically reached, such as

having Scotland field a separate soccer team in international competitions and having Quebec send delegates as part of the official Canadian team to francophone-related international meetings. Increasingly, as the nation-state has been weakened by the multiple influences of globalization, subnational governments have asserted their determination to be represented internationally, often over the objections of national governments.

International engagement by subnational governments is becoming more pronounced in the promotion of international trade and investment. For many years, Canadian provinces have undertaken a variety of initiatives designed to attract foreign investment and to create overseas interest in domestic products. They have dispatched provincial premiers on trade promotion visits to foreign lands — often to hoots of partisan derision domestically — and opened trade offices in other countries, particularly the United States. Provincial delegations, typically involving politicians, civil servants and local businesspeople, have ventured outside the country in search of economic opportunities. Most jurisdictions have substantial economic development offices or



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Prime Minister Stephen Harper with premiers Jean Charest of Quebec and Dalton McGuinty of Ontario at a First Ministers' Meeting in Ottawa in November 2008. The presence of the provinces on the world stage represents both a challenge and an opportunity for Canadian federalism.

departments with responsibility for promoting domestic companies, identifying niche opportunities overseas and attracting international businesses to the province or territory. The wealthier jurisdictions — Alberta, British Columbia, Quebec and Ontario in Canada — have alternately established and closed offices in key international markets. The United States, the United Kingdom, Japan and now China attracted the greatest attention, with subnational governments hoping that their pres-

ence will attract much needed trade and investment.

Under Prime Minister Jean Chrétien, the government of Canada attempted to contain the proliferation of provincial and territorial overseas offices. Chrétien put a great deal of stock in heavily promoted “Team Canada” trade missions, which typically involved the Prime Minister, key cabinet colleagues, provincial and territorial premiers and a large delegation of business and academic leaders.

Under Chrétien, Team Canada visited China (1994), South Asia, Indonesia and Malaysia (1996), South Korea, the Philippines and Thailand (1997), Mexico and the Southern Cone states (Brazil, Chile and Argentina, 1998), Japan (1999), China (including Hong Kong, 2001), Germany and Russia (2002). The effectiveness of the Team Canada missions is difficult to gauge. Critics argued that while the missions contained tightly scripted photo opportunities for both Canadian officials and their hosts (the arrangements

for which could tie up Canadian embassy staff in the country for the better part of a year), little of substance occurred. The business deals were, not surprisingly, negotiated long before the very public signing ceremonies that took place during the visit. In addition, in the years following the Team Canada mission, it was difficult to see much evidence of improved trade and investment between Canada and the targeted countries.

On the other hand, the size and scale of the missions meant that the Canadian participants had the opportunity to network with high-ranking government and business leaders from the host nation. It is difficult to tell what opportunities arose from such access or how quickly the results would become evident. And while the business deals were in place ahead of the mission, the fact that the mission was approaching and that the Canadian PM would be in attendance was an incentive to get the deals completed in a timely manner. The fact that there was no shortage of Canadian businesspeople willing to pay their own way in order to participate indicated that they, at least, thought the money and time were well spent. (The enthusiasm was, at least in part, tied to the direct access Team Canada provided to the Prime Minister, premiers and leading government and business leaders.) The Team Canada missions also presented a united Canadian face both at home and abroad.

Throughout the Chrétien years, provincial and territorial governments kept a comparatively low profile. The combination of nationwide deficit reduction efforts in Canada and concern about the post-bubble economy in Japan and the post-1997 financial meltdown status of the once daunting Asian Tigers restrained provincial and territorial international engagement. Canadian consulates remained the focus for most trade and

development activity; in some countries, provincial trade offices were sometimes housed inside the Canadian embassy. Generally, however, Canada was not overly active in international trade and investment promotion through the 1990s — lagging well behind competitor nations like the United States, Australia and the Scandinavian countries.

The election of the Harper government quickly stimulated renewed provincial interest in international trade and investment promotion. The resurgence of Asian economies, strengthening European conditions, America's declining fortunes and the startling rise of India and China convinced many Canadian provincial and territorial politicians that the country

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needed to re-engage internationally. Reflecting the North American emphasis of the Harper team, however, Ottawa's international presence weakened over the past few years. The closure of a series of federally operated overseas trade and investment offices in several countries and the subtle and more than a decade-long undervaluing of the work of Canadian consulates overseas eroded Canada's global trade and investment capacity.

Ideologically, the Harper government clearly believes that business development is best left in the hands of the business community, even though there are continuing signs of Canadian economic vulnerability in the highly competitive global marketplace. With the federal government

moving away from the Team Canada approach, and with the Prime Minister devoting very little attention to international affairs, a substantial vacuum has developed in the promotion of Canada's economic interests overseas. The government's trade-unfriendly approach to China, where the administration has emphasized human rights over economic collaboration, is part of the reason that Canada has underperformed in the rapidly expanding Chinese marketplace. A federal-provincial trade mission to China in the fall of 2008 represented a step toward setting the relationship on a stronger course. Only in the face of the withering economic crisis of 2009 did the government of Canada increase its emphasis on Asian trading and investment opportunities.

The wealthier and more active provinces have been steadily expanding their international presence, but not in direct opposition to federal activities. Alberta has many overseas offices and opened a facility in Washington, in 2004, housing its operations inside the Canadian embassy. The high-profile presence in the US capital of the energy-rich province stirred a short-lived political tempest when it participated independently in a January 2008 trade event in Washington, promoting its aggressive oil sands developments. Ontario opened its Tokyo trade office in the Canadian embassy in 2006. (Alberta's Tokyo office is not in the Canadian embassy but it is in the same building.) British Columbia, which has been engaged in a lengthy process of evaluating its policies and initiatives related to Asia, has opened five trade and investment offices in Asia (with a sixth scheduled to open in the Indian city of Bangalore in 2009) over the last two years.

Quebec, not surprisingly, is a different story. It has long been the most internationally active province, spurred by a desire to extend and protect its national cultural and political

interests. The province currently maintains a network of 26 international offices, including seven general delegations (Brussels, London, Mexico City, Munich, New York City, Paris and Tokyo), five delegations (Atlanta, Boston, Chicago, Los Angeles and Rome), 10 bureaus (Barcelona, Beijing, Berlin, Damascus, Hong Kong, Mumbai, Sao Paolo, Shanghai, Vienna and Washington) and four trade branches (Milan, Santiago, Seoul and Taipei). The offices operate separately from Canadian embassies and consulates. The bureaus and trade branches are small, locally staffed operations; the larger centres maintain substantial activity in the fields of the economy, education, culture, immigration and public affairs. While there have been sensitivities and occasional difficulties on the political front, collaboration has been the order of the day on economic affairs.

The push toward asymmetrical federalism has the potential to accelerate provincial engagement in international trade and investment promotion. Declaring the Harper government's flexible stance on the international activities of the provinces to be "the most significant policy change in the federal government in at least 25 years," Alberta Premier Ed Stelmach made it clear that the provincial government planned to take steps in this area, starting with labour mobility agreements to help meet continuing shortages of skilled workers. Premier Brad Wall of Saskatchewan, responding to the same policy initiatives, declared, "This is a big country and each province has different economic interests to be pursued internationally...I think recognizing that flexibility and supporting and using the strengths of the provinces who understand their economies perhaps better than any federal government could — that's just wise. It's good policy and it's good for the country."

The discussion about the shift toward provincial international engagement has not yet included any detailed assessment of the suitability of such an approach in the highly competitive fields of global trade and investments. In recent years, representatives of subnational govern-

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ments, including major cities, have been travelling the globe, lobbying investors and industrialists from Dubai to Bangalore to invest in their areas, to buy their products and services and to collaborate on new economy initiatives. Trade delegations have become so commonplace that the arrival of yet another set of regional representatives from a province in China attracts little attention, much as the presence of a provincial trade promotion team in Sendai, Singapore or Taipei rarely receives much more than courtesy photographs in the local press. Trade fairs abound, with hundreds of corporate booths often accompanied by dozens of national and subnational displays, touting the benefits of trade and investment in disparate parts of the world. It is much the same with universities and colleges, eagerly seeking additional fee-paying international students, and competing vigorously overseas for the attentions of educational agents, parents and young scholars. Although politeness reigns in public relations, a veritable trade and investment war is under way globally. Billions of dollars are at stake as countries, regions and cities vie for major contracts, new manufacturing facilities and increased investment.

In this highly charged and extremely competitive environment, what matters most is the effectiveness of a particular approach to

trade and investment promotion. The nuances of federal-provincial-territorial relations in Canada matter very little to international investors and businesspeople, who are scouring the world for opportunities. For the past few decades, Canada has benefited from two sig-

nificant advantages: proximity to the powerful American market (particularly after NAFTA) and abundant and reliable commodities. The latter markets are largely independent of political intervention for they operate in highly competitive global environments. The benefits of the linkages to the United States have waned in recently years, and more so following the current recession. Provinces like Alberta direct 90 percent of their exports to the United States, and Ontario's industrial ties to the American market, particularly in the struggling automobile sector, are well understood. What was once a magnet for international trade and investment with Canada has, in many sectors, lost its lustre. As the government of Canada, provinces, territories and cities vie for attention in an increasingly crowded global economy, it is no longer clear which political and administrative mechanisms work the best in attracting economic and commercial interest.

The experience of the past few decades suggests, however, that widespread subnational engagement may not be particularly effective. At a time when the "Canada brand" has diminished stature on the global economic stage, the attractiveness of a subnational unit is questionable. International understanding of Canadian federal structures is limited.

And while world cities like Toronto, Vancouver and Montreal stand out in international circles, the stand-alone effectiveness of promotional activities by British Columbia, Saskatchewan and even Ontario is questionable. The provinces and territories expect to be engaged in international trade promotion and should be; their efforts, however, will be much more effective if coordinated with federal efforts and if the Canada brand is developed and presented globally.

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In other words, the political structures that matter so intensely to Canadians — and that are increasingly prominent in Canada's international trade and investment promotional activity — matter much less to our potential international trading partners. Australia, the United Kingdom, Germany and most other jurisdictions typically emphasize both national branding and coordinated approaches. In the past, Canadian presentations at trade fairs have often included prominent — and competing — displays by different provinces (the Maritimes occasionally united in a single booth). Trade delegations arriving from several provinces can confound international governments and businesses. Even more seriously, Canadian provinces vying for the same investment often compete with each other — and with other jurisdictions around the world — bidding up the cost of subsidies and supporting commitments.

More directly, provincial governments rarely have the expertise and commitment to maintain a substantial and sustained international presence. Several provincial governments established trade offices in Japan at the peak of the bubble economy,

withdrew their officials when the bubble burst and moved slowly to re-establish ties when the Japanese economy rebounded. The inconsistency of presence and engagement, repeated in other countries over the years, damages the reputation of the province and, indirectly, of Canada.

International business development requires sustained and determined engagement, a lesson Australia, the Scandinavian countries and other competitors appear to have learned

much better than Canada. Having multiple provinces enter foreign markets, often with a short-term outlook and without the resources to properly support intensive interaction, only weakens a less than impressive model for international engagement.

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will the discussion extend to the matter of paradiplomacy and international trade. To a degree that Canadian officials and business leaders seem reluctant to acknowledge, national governments play an active and continuing role in the promotion of international trade and investment and will continue to do so in the future. The prospect of the wealthier provinces expanding their activities outside the country, while the poorer provinces and territories lack the resources to do more than the occasional trade mis-

sion or country-specific delegation, is not a welcome one.

Paradiplomatic activity extends beyond the direct trade and investment portfolios. Subnational governments are actively involved in international education, cultural and tourism promotion, for example. The global climate change agenda is unfolding with sharp regional differences as provinces pursue markedly different approaches to emissions control. Climate change policies, like trade and investment strategies, vary significantly across the country, adding to the challenge of doing business inside the country and presenting significant difficulties for foreign countries seeking to engage in trade and investment with Canada.

Canada has enough difficulty getting noticed on the global stage, particularly outside the traditional and limited areas of commodities and tourism. The country needs more coordinated action, greater collaborative attention to crucial sectors and regions, and sustained national leadership on trade and investment. Paradiplomacy in international trade could have an

impact on the ability of the provinces and willingness of Canadian businesses to expand their operations overseas, but the effectiveness of these efforts would be greatly improved if linked into a concerted, nation-wide effort.

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