

MULTILATERALISM AND CANADIAN FOREIGN POLICY IN THE POST-COLD  
WAR ERA:  
CASE STUDIES OF NATO AND THE GATT

by

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Multilateralism and Canadian Foreign Policy in the Post-Cold War Era:

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## **Abstract**

The end of the Cold War marked a fundamental shift in the structure of the international system. As a result, students of international politics have begun to investigate what impacts this structural shift has had on the foreign policy of states. In the case of Canada, multilateralism has been the foundation upon which Canadian foreign policy goals and objectives have been constructed since the end of World War II. With the end of the Cold War and the bipolar international structure, this thesis asks, in light of this structural change, whether multilateralism will continue to play a dominant role in Canadian foreign policy.

In the attempt to answer this question, two case studies of Canadian participation in multilateral organisations have been undertaken. The first case study of this thesis examines Canadian policy towards North Atlantic security and the North Atlantic Treaty Organisation. The approach used in this case study compares Canadian security policy objectives in the immediate post-war years of 1945-50 with security policy objectives in the early post-Cold War years of 1989-1995. The second case study undertakes an examination of Canadian trade policy objectives in the early post-war years and compares them with trade policy objectives in the early years of the post-Cold War. The rationale for this approach is premised on the assumption that if foreign policy goals and objectives are compared under different structural conditions, then any major changes in a state's foreign policy could be at least partially attributable to the structural change which occurred in the international system.

This thesis concluded that there has not been a significant shift away from multilateralism by the Canadian government, at least in the fields of security and

trade policy. Thus it is possible to argue that structural change is not a strong predictive variable for accounting for change in a state's foreign policy. While the end of the Cold War has not substantially altered the government's commitment to multilateralism, many of the reasons for this continued Canadian commitment have undergone a transformation. This finding suggests that this may be a possible field for future investigation.

## **Acknowledgements**

As with any project of this nature there are many people who have contributed to its successful completion. Firstly I would like to thank the many friends and colleagues who contributed in an informal way by simply letting me natter on about multilateralism, NATO and the GATT, and who provided helpful and insightful comments on my thoughts. In particular I would like to thank Sheila Day, Helen Takala, Aaron Laing and Christine Massey for their patience and encouragement. Special thanks must be given to Dr. Douglas A. Ross for his advice and guidance, as well as his endless patience and support throughout this project. Thanks for all the lunches. Dr. Ted Cohn for his perceptive comments on earlier drafts. It has been an honour to work with two such fine academics. To the staff in the department of political science, past and present, without their efforts this project would have been that much more difficult. And finally to my parents. Without their support this work would not have been completed.

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## CHAPTER ONE INTRODUCTION

In 1990, Jan Oberg of the Trinational Foundation for Peace and Future Research in Lund, Sweden, wrote that Perestroika and the revolutions it unleashed in Eastern Europe would prove to be one of the greatest challenges to face the West during the post-war years.<sup>1</sup> Oberg argued that the disappearance of the East would prove catastrophic to the West since the West had, over the past half century, defined itself not so much in terms of what it was, but rather in terms of what it was not, that is to say, the East. If the East no longer existed, then the West's primary point of reference would cease to exist, and the West would have to redefine not only itself but also the nature of its very existence. This, Oberg believed, would be the West's greatest challenge. As he aptly phrased it, having to cope with the loss of a close enemy.

While some may challenge Oberg's assertions, he has raised a fundamental question for students of international relations in the post-Cold War era. For the most part, the major post-war theories and ideas about the nature and behaviour of states in the international system have been conceived and refined by academics in the West in general and by American theorists in particular. Theorists such as Hans Morgenthau, Henry Kissinger, Kenneth Waltz, Robert Keohane, Susan Strange and Barry Buzan, to name just a few, have all contributed to the literature base of international relations theory during the past 50 years. Although it is open to debate, it is not beyond reason to suggest that the Cold War had a significant impact on the thinking, writing and

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<sup>1</sup> See Jan Oberg, "Coping with the Loss of a Close Enemy: Perestroika as a Challenge to the West" Bulletin of Peace Proposals Vol. 21, no. 3, 1990, p. 289.

conclusions of most of these influential theorists. It would also not be beyond reason to suggest that the end of the Cold War will also have a significant impact on new thinking towards state behaviour.

The end of the Cold War has had a significant impact on the structure of the international system. With the fall of Communism in Eastern Europe and the collapse of the Soviet Union, the international system ceased to be bi-polar in nature and began the process of evolution into something else. The United States now remains the world's only global military power, but its economic supremacy has waned for the better part of 25 years. While it is possible to say with some certainty that the international system is no longer bipolar, it is more difficult to define the current international structure. It is unipolar in terms of military power and security, but it is distinctly multipolar with respect to economic security and trade. Thus, it is possible to argue that this shift or evolution of the international system from bi-polar to unipolar or bi-polar to multi-polar, will have a profound impact on the behaviour patterns of international actors.

In order to fully understand the actions of states, it is first necessary to understand the system in which those states operate. This point is crucial if researchers are to move beyond the limits of pure theory and on to empirical testing grounds. Kenneth Waltz has argued that structural questions are really questions about how the parts of the system are arranged.<sup>2</sup> Factors which affect this arrangement of the system include changes in the distribution of capabilities, the nature of the system (i.e. is it anarchic or hierarchic) and the roles that states perform. Since, as Waltz contends, the nature of the international system is

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<sup>2</sup> Kenneth N. Waltz, "Political Structures" in Neorealism and its Critics (ed.) Robert O. Keohane (New York: Columbia University Press, 1986), p. 81.

anarchic, and this anarchy forces states to perform similar functions<sup>3</sup>, the arrangement of actors in the international system will therefore be determined by the distribution of capabilities. If the actions of states are affected by changes in the distribution of capabilities. If the structure of the international system, and the structure of the international system is affected by the distribution of capabilities, then changes in the distribution of capabilities will affect the behaviour of states. If the end of the Cold War has affected the structure of the international system, then it seems reasonable to ask whether it has affected the behaviour of specific states.

Therefore the question put forward for investigation will be: Has the end of the Cold War affected the behaviour of states? In order to answer this question it is necessary to identify instances where it is possible to move beyond theoretical conjecture and examine cases where state behaviour might be expected to have been influenced by the end of the Cold War. For empirical evidence, this study will look specifically at the issue of multilateralism in Canadian foreign policy. More precisely, it will examine and contrast traditional Cold War interaction of Canada with the North Atlantic Treaty Organisation (NATO) and the General Agreement on Tariffs and Trade (GATT) with recent post-Cold War behaviour.

The rationale for exploring the continued utility of multilateralism in Canadian foreign policy is two-fold. Firstly, the emergence of institutionalized multilateralism under hegemonic leadership during the Cold War forced international relations theorists to re-think many of the core assumptions relating to cooperation. This in turn set off a major debate in the discipline regarding the

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<sup>3</sup> See Kenneth N. Waltz, Theory of International Politics Reading Mass.: Addison-Wesley, 1979.

question of cooperation. Realists such as Joseph Grieco have argued that states do not actively seek to cooperate with others because of concerns about cheating and the gains that accrue to a partner.<sup>4</sup> In other words, states cooperate as a defensive reaction to limit the gains of partners, and not to achieve gains for themselves. This view is questioned by advocates of neoliberal institutionalism, such as Robert Keohane, who argue that given the rise of cooperative multilateral institutions such as the UN, NATO, and the GATT, state leaders recognize that cooperation is not a zero-sum equation, and that there are mutual gains to be achieved through cooperation.<sup>5</sup> If multilateralism as an approach to cooperation emerged under conditions of bipolarity, the end of the Cold War requires students of international relations to ask questions regarding the future of multilateralism in a non-bipolar international system. How will the end of the Cold War affect states' interests in cooperation? Will the end of the Cold War see a break down in multilateral cooperation in the face of a declining and less recognizable threat?

Secondly, multilateralism has been the cornerstone of Canadian foreign policy throughout the post-war era. In the years immediately following the end of World War II, the Canadian government, through its strong support for both NATO and the GATT, was a leading and vocal supporter of multilateralism as the foundation for post-war international relations. A new era of young diplomats such as Lester Pearson, Hume Wrong, Dana Wilgress, Escott Reid, and Norman Robertson were just beginning to put their mark on the Department of External Affairs which would see the Canadian state play a more active role in

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<sup>4</sup> See Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism" *International Organisation* Vol. 42, no. 3 (Summer 1988).

<sup>5</sup> See Robert O. Keohane, "Multilateralism: An Agenda for Research" *International Journal* Vol. XLV (Autumn 1990)

international affairs, which was a role that these diplomats believe reflected Canada's increased stature in international circles. The realization of these diplomats' vision was aided by the retirement of MacKenzie King as prime minister in 1948, and his replacement by Louis St. Laurent, who was less cautious than King when it came to Canadian involvement in international affairs, and was less suspicious and more supportive of the views of the new cadre of senior officers at External Affairs. It was under the administration of St. Laurent, with Pearson as his Secretary of State for External Affairs, that multilateralism became the foundation of Canadian foreign policy. If there was to be a shift in Canadian foreign policy as a result of the end of the Cold War, the key question was the impact this shift would have on multilateralism as a cornerstone of Canadian foreign policy.

Both Tom Keating and Kim Richard Nossal have recently written books which seek to identify where Canadian foreign policy might be headed after the Cold War. In his book Canada and World Order: The Multilateralist Tradition in Canadian Foreign Policy, Keating argues that the Canadian interest in multilateralism can be traced to a number of factors which range from

Canada's relative power status in the international system, to the personalities of particular officials. The convergence of these factors in the 1940s was instrumental in setting Canadian foreign policy on a multilateralist course that has been followed with few deviations since that time... At the dawn of the early 1990s, many of these factors have undergone a significant transformation such that the future viability of multilateralism and Canadian support may be poised for change.<sup>6</sup>

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<sup>6</sup> See Tom Keating, Canada and World Order: The Multilateralist Tradition in Canadian Foreign Policy (Toronto: McClelland and Stewart, 1993), p. 13.

Nossal, in his book Rain Dancing: Sanctions in Canadian and Australian Foreign Policy, has argued that with respect to the issue of sanctions, during the Cold War Canadian sanctions policy was heavily influenced by coalition politics. Once the anti-Soviet coalition broke down after 1991, Canada was freer to pursue a less sanctionist approach towards Vietnam, and with the declining importance of strategic considerations, the Canadian government felt freer to sanction Indonesia after the Dili massacre of 1991.<sup>7</sup> Both Keating and Nossal argue that the end of the Cold War will have a direct impact on the future of Canadian foreign policy. However their arguments and conclusions seem to suggest that adherence to or deviation from multilateral norms may be dependent on issue area as well as structural change.

Thus, it is reasonable to suggest that any study of post-Cold War Canadian foreign policy must necessarily study the future of multilateralism in more than one post-Cold War issue area. If change in the structure of the international system is expected to affect the behaviour of states, then it seems likely that in the Canadian context, multilateralism might come under some pressure from alternative forms of cooperative behaviour. To this end, this study will undertake to examine two branches of foreign policy where multilateral approaches to cooperation have had a significant impact: international security policy and international trade policy. Specifically, this study will look at the case of Canada and the North Atlantic Treaty Organisation (NATO) and the General Agreement on Tariffs and Trade/World Trade Organisation (GATT/WTO).

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<sup>7</sup> See Kim Richard Nossal, Rain Dancing: Sanctions in Canadian and Australian Foreign Policy (Toronto: University of Toronto Press, 1994) pp. 253-254.

However, before any examination of multilateralism in Canadian foreign policy can be undertaken, it is first necessary to move to a higher level of abstraction and place the question in the broader context of cooperation in international relations. A fundamental assumption of this investigation will be that institutionalized multilateralism is rooted in cooperation, which is to say that states agree to organize international institutions because they perceive that it is in their best interests. This necessitates an analysis of contemporary cooperation theory, which will entail an examination of how some of the major theoretical approaches to international relations explain why some states seek (or in some cases do not seek) to enter cooperative arrangements. Beginning with E. H. Carr and moving through Hans Morgenthau, Kenneth Waltz, and Robert Keohane, Chapter 2 of this study will compare various theoretical approaches towards the explanation of international cooperation. Specifically, it will examine various conceptualizations of cooperation under realism, neorealism, and neoliberal institutionalism. This chapter will also look at multilateralism as a theoretical approach to understanding state behaviour. This examination of multilateralism will help to shed some light on the question of why states choose multilateralism rather than other forms of cooperation. The aim of Chapter 2 will be to attempt to ground the specific issue of multilateralism in Canadian foreign policy in a theoretical context, which will permit any conclusions drawn from the specific case studies to be utilized as a tool to help answer the broader question of why states cooperate.

Chapter 3 will undertake to examine multilateralism in Canadian security policy in the post-Cold War. It will look specifically at the question of the continuing utility of Canadian participation in the North Atlantic Treaty Organisation. In the years immediately following the conclusion of World War II,

there was a general concern among the foreign policy elite in Canada regarding the economic and military security of the United Kingdom and Western Europe in the face of a perceived Soviet political and military threat. At the same time, there was a growing fear in Canada about the American reaction to the Soviet threat which caused decision makers in Canada to worry about possible American action that might lead to greater instability in the international system. In response to these threats, the Canadian government undertook to become an outspoken proponent of a multilateral security framework in the North Atlantic that would institutionalize the security of North America with the security of Western Europe.

The Canadian government's primary objective in this field was two-fold. The first was to draw the United States into a formal security arrangement with the states of Western Europe that would act as an effective deterrent to Soviet agitation in the years following the war. By doing so, Canadian decision-makers believed that if the Europeans could be relieved of their worries concerning defence against the Soviet Union, they would be able to devote greater resources to their economic reconstruction, which in the long run would prove to be the best defence against Soviet political provocation. Secondly, the Canadian government was worried about American unilateralism in its dealings with the Communist regime in the Soviet Union. The reality of Soviet bombers and ballistic missiles aimed across the Arctic and across Canada at the United States meant that the defence of the United States was, in fact, virtually synonymous with the defence of North America. Any escalation in tensions between the United States and the Soviet Union would have a direct impact on the security of Canadians. To that end, the government was anxious to have the



United States involved in an institutionalized security regime that could effectively limit unilateral American action.

With the end of the Cold War, it is quite obvious that from the Canadian perspective, the original need for NATO no longer exists. With the disappearance of the Soviet Union, and with the former communist states of Eastern Europe anxious to join the ranks of NATO, a key question arises as to whether Canadian participation in a multilateral security forum for the North Atlantic serves Canadian interests. There have been signs over the past decade that the Canadian government views participation in NATO as a luxury that can no longer be afforded. But it is by no means certain that there are no longer threats to Canadian security that NATO can deal with. Official Canadian policy continues to argue that Canadian security interests are still best served by participation in NATO.<sup>8</sup> This chapter will attempt to determine what threats to Canadian security now exist that NATO might have a role in solving, and to what extent Canadian participation in a multilateral security regime in the North Atlantic still serves Canadian interests.

Chapter 4 will examine Canadian participation in the General Agreement on Tariffs and Trade, and its successor, the World Trade Organisation. Once again the main question here will be whether Canadian trade interests, given the dramatic changes in the world political economy over the past decade, and

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<sup>8</sup> The 1994 White Paper on Defence states that "Canada will remain a full and active member of NATO...the government values the transatlantic link that NATO provides and recognises that, since 1990, the Alliance has made progress in adapting to a post-Cold War world...Canada will be an active participant in the Alliance's ongoing efforts to reach out to the countries of Central Europe as well as to those of the Commonwealth of Independent States...Canada will participate in multilateral and bilateral programs that aim to integrate gradually our NACC partners into an effective security order for the Northern Hemisphere. See Canada, Department of National Defence, 1994 Defense White Paper, Ottawa: Supply and Services Canada, 1994, p. 35.

especially since the end of the Cold War, are being served by a global multilateral institution. As in Chapter 3, this chapter will also explore the post-war origins of Canadian policy towards the establishment of the GATT and the ITO. It will illustrate Canadian interests in the establishment of a global, rules-based trade regime, as well as identify the Canadian interpretation of multilateral trade in the immediate post-war world. This will include an examination of the government's inclination towards bilateralism when Canadian interests warranted such a course of action.

In the years immediately following the War, Canadian economic interests consisted mainly of ensuring a quick recovery of the economies of Western Europe, especially the British, in response to Soviet political agitation. Perhaps more importantly to the Canadian government, post-war trade policy was designed primarily to develop markets in Western Europe, and to assist the recovery of previously established markets in the United Kingdom. As a country which was dependent on exports for economic prosperity, the single most important goal for the government was to avoid a return to the type of international trade system that emerged in the 1930s. If Canadians were to prosper economically, they had to have export opportunities, and thus an open and liberal international trade system was imperative.

However, Canadian import and export patterns show a clear dependence on two main markets in the early 20th Century. Canadian exports were destined primarily for either the United States or the United Kingdom, with the United States emerging as the primary destination for Canadian goods after 1920, although there existed a rough parity in terms of percentage of total exports, a situation which lasted until the end of WWII. As well, the Canadian economy

depended on imports mostly from the United States, but the United Kingdom remained an important source of imports up until the end of the War. This pattern of international trade produced an annual trade surplus with the United Kingdom and an annual trade deficit with the United States. The Canadian government did not consider this situation to be problematic since the trade surplus with the UK was sufficient to balance the trade deficit with the US. Thus, a primary objective of post-war Canadian trade policy was to re-establish this triangular trade relationship. Once it became apparent that this would not be possible, the government, within the GATT system, sought to strengthen its trade relationship with the United States as security against the loss of the British market.

Thus, Canadian trade policy in the immediate post-war years had a dual objective. One was strategically-oriented and designed to foster the reconstruction of the economies of the UK and Western Europe in the face of Soviet aggression; the second, more domestically-oriented aim was designed to ensure the continued economic prosperity of Canadians through an open, liberal and rule-based multilateral regime. Once again, the question becomes whether, at the end of the Cold War, the existing global trade regime established under the GATT still serves Canadian interests, especially in light of the fact that as of November 1994, 79.5 per cent of Canadian exports go to one market.<sup>9</sup>

At first glance, the end of the Cold War may seem to have not had the same impact on trade policy as it had on security policy. It does, however, appear as though the government, over the past decade, has undertaken

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<sup>9</sup> Statistics Canada, Exports by Commodity, November, 1994, Ottawa: Minister of Industry, Science and Technology, 1995.

initiatives in the field of trade policy which run contrary to the established post-war norm of negotiating trade agreements in a multilateral context. Identifying a direct relationship between the end of the Cold War and changes in Canadian trade policy is a difficult task. Unlike security policy, which has a clearly discernible external element, trade policy, especially in the Canadian case, is heavily influenced by domestic considerations. The result is that changes in external conditions might not be the primary catalyst for a change in policy. While changes in the international political economy undoubtedly exert pressure on trade policy, countries such as Canada which are highly dependent on exports for economic prosperity, might be more heavily influenced by domestic, as opposed to external changes.

Consequently, the aims of this chapter are two-fold, and reflect the importance of both domestic and international interests in the development of international trade policy. Firstly, Canadian participation in the establishment of the GATT/ITO will be examined in hopes of illustrating the goals and objectives of post-war trade policy. This will include a review of the impact of import and export patterns. Secondly, this chapter will attempt to identify Canadian trade policy objectives as they have developed in the years following the end of the Cold War, with specific reference to the relationship between the GATT/WTO and the Canada-US Free Trade Agreement and the North American Free Trade Agreement. More specifically, it will examine the question of whether CAFTA and NAFTA are repudiations of the GATT process, or whether they are in fact complementary to the GATT in terms of moving the GATT process forward. Thus, Chapter 4 is designed to illustrate what, if any, influence systemic structure might have had on Canadian trade policy.

The importance of examining both post-war and post-Cold War Canadian foreign policy in the fields of security and trade is unquestionable. Chapter 2 will not only review the development of international relations theory, but will also illustrate the main theoretical assumption of this investigation: that change in the structure of the international system has an impact on the foreign policy of the states. If both post-war and post-Cold War policy are not examined, the result would be a descriptive snap-shot of foreign policy frozen in time. The approach utilized in Chapters 3 and 4 will provide the basis for comparison and analysis of any changes that may have occurred. By using such an approach, this thesis should help to determine to what extent systemic change is a valid explanatory tool for changes in foreign policy.

## **CHAPTER TWO**

### **Neorealism, Neoliberal Institutionalism, and Cooperation in International Relations :**

#### **A Framework for Analysis**

#### **INTRODUCTION**

The question of cooperation and the role that multilateral institutions play in the facilitation of cooperation is a central element in the understanding of state behavior. In the Canadian context, international institutions have played a key role in the formulation of foreign policy since the end of the second World War. Now, with the end of the Cold War, one of the basic question analysts of Canadian foreign policy should concern themselves with is whether multilateralism, as a philosophy, will continue as an important element of foreign policy.

International institutions have historically played an important role in the realization of Canadian foreign policy objectives, but recent trends seem to indicate that multilateralism may be giving way to bilateralism as a foundation of foreign policy. Can this shift be attributed to changes in the international structure, or is it just a reflection of the philosophical orientation of the government of the day? While, in the foreseeable future, it appears as though multilateral institutions will continue to play a role in the foreign policy objectives of the Canadian state, a question that remains unanswered is whether multilateralism will continue to serve the foreign policy interests of Canada in the post-Cold War era.

With these questions in mind, the purpose of this chapter is to examine the issue of cooperation in international relations, with a view to explaining or providing a theoretical context for the future of multilateralism in Canadian foreign policy. The first section will examine realism and neorealism and their approach to understanding international relations, as well as how they explain cooperation. The second section will then provide an in-depth analysis of neoliberal institutionalism with the purpose of demonstrating its particular strengths in explaining how institutions facilitate cooperation. Finally, this chapter will examine multilateralism as a theoretical explanation of cooperation in international relations.

## REALISM AND NEOREALISM

Any review of international relations theory should begin with the realist/neorealist school. As the dominant paradigm in the discipline, it has influenced a significant number of theorists, and not surprisingly, neorealism has been the foundation of some of the seminal works on international relations produced during the Cold War.<sup>10</sup> The realist/neorealist school has a long history dating back to Thucydides and later Machiavelli, with the first scientific use of realism emerging during the immediate post-World War II years. This modern

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<sup>10</sup>Kenneth N. Waltz's volume Theory of International Politics can be ranked as the major work on neorealism. The significance of this work is highlighted in Robert Keohane's edited volume Neorealism and its Critics. Here, the most meaningful chapters of Waltz's monograph are reprinted and accompanied by both criticism (Richard Ashley "The Poverty of Neorealism" and Robert W. Cox "Social Forces and World Orders: Beyond International Relations theory") and adulation (John G. Ruggie "Continuity and Transformation in the World Polity: Towards a Neorealist Synthesis" and Robert G. Gilpin "The Richness of the Tradition of Political Realism"). A recent monograph on neorealism has been produced by Barry Buzan and is entitled The Logic of Anarchy. This volume is essentially an attempt to move neorealist thinking forward and is primarily dedicated to plugging many of the cracks that have developed in the neorealist theory over the last decade.

form of realism was profoundly influenced in its genesis by the failure of the utopian or idealist understanding of the nature of international relations.

Writers such as E. H. Carr and Hans J. Morgenthau were the first to attempt to develop a scientific understanding of the politics of international relations. Both Carr's *The Twenty Years Crisis* and Morgenthau's *Politics Among Nations* emphasize the importance of power in the relations between states as well as the power of self interest. Carr devotes considerable time to analyzing where the failures of the idealists led to a breakdown in international relations. Starting with the origins of idealist thought in the works of Jeremy Bentham, and tracing it through to its interpretation by Woodrow Wilson and subsequent translation to international relations, Carr demonstrates that the idealists made a fundamental error in their attempt to translate the basic ideas of Benthamite thought on the individual to states in the international system.

Idealists started with the basic Benthamite idea that the fundamental characteristic of human nature was to seek happiness and avoid pain. From this premise, the Benthamite rational ethic defined good as the greatest happiness of the greatest number.<sup>11</sup> This led to the belief that the pursuit of the good was a matter of right reasoning, that the spread of knowledge would soon make it possible for everyone to reason rightly, and that anyone who reasoned rightly would necessarily act rightly.<sup>12</sup> If this was the nature of man [sic] then it was only a small leap of logic to apply this same reasoning to the field of international relations.

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<sup>11</sup> E. H. Carr, *The Twenty Years' Crisis, 1919-1939* 2nd ed. (New York: Harper Row Publishers, 1945), p. 23.

<sup>12</sup> Carr, p. 25.



While the Benthamite thought outlined above emerged during the early part of the industrial revolution, the idea of transplanting these ideas into the field of international relations did not emerge until the conclusion of the First World War. This was a result of the emergence of the United States, under the leadership of Woodrow Wilson, as an important actor in international relations. Wilson believed it was possible to take the basics of Benthamite thought and apply them to the world of international relations. Wilsonian idealism was based on the success of a limited number of liberal democracies that were successful because they had reached a particular level of economic development. The idealists viewed the economic advancement of these liberal democracies in the inter-war period as the enlightened advancement of humanity. Therefore, it seemed a simple matter of transplanting the same rational principles that led to this domestic advancement in the relations of individuals to the international sphere and the advancement of state relations.

However, as Carr points out, this transfer of Benthamite democratic rationalism from the national to the international sphere was full of unforeseen difficulties.<sup>13</sup> Perhaps the most important error the idealists made was in believing that when states pursued their own rationally thought out self-interests, they would be pursuing the best interests of the international community. The erroneous assumption was made that the process of behaviour standardization that led to a confluence of interests in the domestic setting would lead to a similar standardization in the international sphere. At a very abstract level, any social order, according to Carr, implies a large order of standardization. By this

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<sup>13</sup> Carr, p. 28.

Carr means that there cannot be a different rule for every member of the community.<sup>14</sup> It is one thing to try to standardize a nation-state with several million people all generally conforming to recognized and accepted patterns of behaviour. It is however, quite a different matter to try to apply this idea of standardization to a small number of actors all differing widely in size, and economic, political and socio-cultural development.<sup>15</sup> Once institutionalized, the Benthamite principles became the philosophical basis for the League of Nations. However, the inability of the League to deal with the economic and political crises of the inter-war period provided a clear indication of the fallacy of the idealist notion that the individual pursuing their own interest was compatible with the pursuit of the common good. As Carr argued, what faced international relations at the conclusion of World War II was a complete bankruptcy of the notion of right reasoning. It was clear from the failures of the League that it was not possible to deduce virtue from right reasoning because it was no longer possible to argue that every state, by pursuing the greatest good of the whole world was pursuing the greatest good for its own citizens. Nor was it valid to assert that a state that pursued the interests of its own citizens was pursuing the interests of the global community.<sup>16</sup> Thus, we have the collapse of the doctrine of the harmony of interests. It is not surprising that the discovery of the errors inherent in the concept of the harmony of interests laid the foundations for the development of the modern post-war realist school.

The idea of the harmony of interests was developed as an abstract notion premised on a misperception of the nature of humanity, the nature of the

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<sup>14</sup> Carr, p. 28.

<sup>15</sup> Carr, p. 28.

<sup>16</sup> Carr, p. 62.

international system, and the power of self-interest. Realists in their thinking did not deny that these ideas had a place in international relations. In fact, realists tended to rely heavily on the notion of self-interest as a major explanatory factor in state behaviour. What the realists *did* reject out of hand was the philosophical and abstract notion of international relations on which the idealists had depended. As Hans Morgenthau argued:

The test by which a theory must be judged is not a *priori* and abstract but empirical and pragmatic. The theory in other words must be judged not by some preconceived abstract principle or concept unrelated to reality, but by its purpose: To bring order and meaning to a mass of phenomena which without it would remain disconnected and unintelligible.<sup>17</sup>

Morgenthau's idea that international relations could be thought of as scientific, and be understood in terms of a concrete analysis of the forces that drive a state's decision makers to calculate in a rational manner the costs and benefits of a particular decision has been perhaps the single most important advancement in international relations. It directly challenged the pre-existing notion of international relations as some abstract understanding of the nature and behaviour of humanity.

The basics of realist thought are found in Morgenthau's six principles of political realism. They include:

1. The idea that politics is governed by objective laws which have their roots in human nature;
2. Interests are defined in terms of power which provides the link between reason and fact;

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<sup>17</sup> Hans J. Morgenthau, Politics Among Nations: The Struggle for Power and Peace 5th ed. rev. (New York: Alfred A. Knopf, 1978), p. 3.

3. Interests, defined as power, are objective and universally valid, however the kinds of interests determining political action depend on the political and cultural context within which foreign policy is formulated;
4. Moral principles cannot be applied to the actions of states, they must be filtered through the concrete circumstances of time and place;
5. There is no connection between the moral aspirations of states and the moral laws that govern the universe;
6. And finally, there is a real difference between realism and other schools and it is summed up in the question: "How does this policy affect the power of the nation?"<sup>18</sup>

As these six principles illustrate, for the realist, power defined by national interest is paramount in international relations. In the area of cooperation, power is also considered paramount. Since international politics takes place under conditions of anarchy, the individual nation state is sovereign. As Waltz has phrased it, no one is entitled to command and no one is compelled to follow. Under such circumstances, the only guiding principle for state action must be that choice which either permits the state to improve its power position relative to other states in the system, or at a minimum to limit the advances that other states make in relation to one's own.<sup>19</sup> States pursue their interests autonomously from other states and they act according to the rule of self help. In other words, states shape their interests in terms of their power relations with other states in the system, and they pursue their goals as independent actors. With self help as the rule, realists discount both cooperation and institutions as irrelevant. Thus, states are free to act in their own self interest until their power is checked by other actors in the system.

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<sup>18</sup> Morgenthau, Politics Among Nations, p. 12.

<sup>19</sup> For an excellent review of the basics of realist thought on the subject of self-interest, survival and self-help see Arthur A. Stein, Why Nations Cooperate: Circumstance and Choice in International Relations. (Ithica: Cornell University Press, 1990), pp. 4-7.

With this in mind, a logical query becomes how realists account for the fact that cooperation among states does in fact occur. The answer can be found in the concept of self interest. While it may seem contradictory that autonomous states which act under conditions of self help would enter into cooperative alliances, there are instances where the costs of cooperating are not outweighed by the benefits of self help. Under the self help rule, states are free to expand until they are checked by the power of another state. Since the main objective of states is to survive, it is in the interest of states not only to ensure that they possess adequate power to defend themselves, but also to ensure that no one power is able to dominate the international system. If stability was the only objective of international relations, it could easily be achieved by having one dominant state overwhelm all others in the system. However, the goal of actors in the international system is the continued existence of the various states that comprise the international system. Therefore, it is in the interest of international actors to prevent any one state from possessing the ability to threaten the existence of all others in the system. In an instance where one state was in such a position, it would then seem to be rational for the remaining states to enter into an alliance of some manner to check the power of the dominant state and to restore a sense of equilibrium to the international system.<sup>20</sup>

An important distinction to be made here is that balance of power alliances do not, for the realist, constitute an institutionalization of the international system. Rather, realists simply view these actions as necessary

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<sup>20</sup>For a more detailed analysis of balance of power see Morgenthau, Politics Among Nations, and George Liska, Nations in Alliance: The Limits of Interdependence Baltimore: Johns Hopkins Press, 1962.

self-interested actions of a state to preserve its existence and to maintain the stability of the international system. This cooperation is fleeting at best, and can be altered at any time depending on how each state views its interests in the wake of the alliance outcome. If, for example, as a result of an alliance formation, state A's power is sufficiently reduced to the point where it no longer poses a threat to the stability and equilibrium of the international system, but state B, now possesses the power capabilities to threaten the system, state C, which was previously allied with B, may now switch and align itself with A in order to restore balance to the system by checking the growing power of B.<sup>21</sup>

To this point, the nature of international relations from the realist perspective has been outlined, and it has been put forward that states view their relations with other states in terms of power defined by capabilities and national interest. Those relations are conflictual by nature and are dominated by self interest and self help. States are autonomous, individual actors which rely only upon themselves to protect their interests, and which only enter into alliances when the equilibrium of the system and their own existence is threatened. What has not yet been explained, however, is how states arrive at those decisions. What factors are at work shaping the perceptions and understandings of the state's decision makers? This is where the neorealists have picked up the realist flag and carried forward.

The definitive word on neorealist thought is found in Kenneth N. Waltz's *Theory of International Politics*. The aim of Waltz's work was to develop a

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<sup>21</sup> This aspect of alliance formation and balances of power has become known as the security dilemma. An excellent examination of this phenomenon is found in Glenn H. Snyder, "The Security Dilemma in Alliance Politics" World Politics Vol. 36, no. 4 (July) 1984, pp. 461-495.

parsimonious systemic theory of international relations that would explain state behaviour as a response to structural stimuli. Structure then became the single most important factor (among many distinct and interacting factors) that affects states' foreign policy decision-makers. Classical realism of the Morgenthau and Carr era had been unable to explain several key aspects of state action in the international system, the most significant of which was realism's inability to satisfactorily explain the motivations of state action outside of the broad definition of national interest. More specifically, realism failed to explain what forces were at work that lead states' decision-makers to determine that a certain course of action and subsequent policy position were in the state's national interest. Neorealists argue that in fact, it is the characteristics of systemic structure that determine state actions.

According to neorealists such as Waltz, the international system is composed of a structure and of interacting units.<sup>22</sup> Neorealists immediately discount analysis of state interaction from the unit level by arguing that structure is the system wide component that makes it possible to conceive of the international system as a whole. Waltz warns that it is not possible to understand world politics by looking inside states. If this becomes the central focus of analysts, then the analyst is forced into simple descriptive narrative and from this level no generalizations can be drawn about the nature of international relations.<sup>23</sup> To fully understand both the concept and impact of structure, one must resist the temptation to examine how the individual units relate to one

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<sup>22</sup> Kenneth N. Waltz, "Political Structures" in Robert O. Keohane (ed.) Neorealism and its Critics (New York: Columbia University Press, 1986), p. 70.

<sup>23</sup> Kenneth N. Waltz, "Reductionist and Systemic Theories" in Robert O. Keohane (ed.) Neorealism and its Critics (New York: Columbia University Press, 1986), p. 52.

another, and instead concentrate on how they are positioned in relation to one another.

Structure must then be conceived of in terms of three dimensions: the ordering principle, the specification of function of formally differentiated parts, and the relative capabilities of the units themselves.<sup>24</sup> The basis for this argument comes from Waltz, who accepts that international interactions take place at the unit level. However, how those units stand in relation to one another is not a property of the units themselves, but is instead a property of the system. In the history of international relations results seldom correspond with intention. The question that Waltz asks, based on this observation, is why actors were repeatedly thwarted? The apparent answer is that causes are not found in individual actors and motives are not a single collective operating variable. Instead, each state arrives at policies and decides on specific courses of action based on its own internal decision-making processes, but its decisions are shaped or influenced by the presence of other states, as well as by their interactions.<sup>25</sup> Furthermore, since structure is an abstraction, it cannot be understood simply by counting up the material assets found within. Rather it must be conceptualized or defined by the system's parts and the principles of that arrangement.<sup>26</sup>

As was mentioned earlier, the three dimensions of structure according to neorealists are the ordering principle, functional differentiation, and the capabilities of states. When realists talk about the ordering principle of the

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<sup>24</sup> Robert O. Keohane, "Neorealism and World Politics" in Robert O. Keohane (ed.) Neorealism and its Critics (New York: Columbia University Press, 1986), p. 14.

<sup>25</sup> Waltz, "Reductionist and Systemic Theories", p. 52.

<sup>26</sup> Waltz, "Political Structures", p. 72.



international system, they want to know whether the system is anarchic or hierarchic. The difference between the two has important ramifications for how cooperation is understood. The difference between hierarchy and anarchy is somewhat rudimentary. Both terms find their definitions are rooted in an understanding of government and sovereignty, where hierarchy is understood to mean a system with only one sovereign authority and anarchy is understood as a system with more than one sovereign authority.<sup>27</sup> A better conceptualization is the classic phrase, "No one by virtue of authority is entitled to command; no one, in turn is obliged to obey."<sup>28</sup>

The second dimension, specification of function of differentiated units, is not quite as easily understood as the concepts of hierarchy and anarchy. Keohane in interpreting Waltz, has argued that any international system is ordered by the principle of anarchy, and in such systems there is no need to be concerned with the function performed by states, since under conditions of anarchy they would all function alike.<sup>29</sup> But the question still remains, what does that mean? What Waltz means here is that the units or states are either similar or different in terms of the functions they perform.<sup>30</sup> Similar is equated with sovereignty, where the individual units define themselves as the highest authority in all matters of government. Different is understood to mean that the units claim sovereignty over only a portion of state functions. When the organizing principle and the functional dimensions are taken together four possible configurations of political structure arise:

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<sup>27</sup> Barry Buzan, Charles Jones and Richard Little, The Logic of Anarchy: Rethinking Neorealism (New York: Columbia University Press, 1993), p. 37.

<sup>28</sup> John Gerard Ruggie, "Continuity and Transformation in the World Polity: Towards a Neorealist Synthesis" in Robert O. Keohane (ed.) Neorealism and its Critics (New York: Columbia University Press, 1986), p. 134.

<sup>29</sup> Keohane, "Neorealism and World Politics", p. 14.

<sup>30</sup> Buzan, p. 38.

- 1) similar-hierarchy,
- 2) similar-anarchy,
- 3) different-hierarchy, and
- 4) different-anarchy.

However, according to Waltz, we can immediately discount numbers one and four because of the strong two-way interactions between organizing principle and functional differentiation of units. Waltz's argument runs along the line that in a type two situation, similar units and anarchy are opposite sides of the same coin. If all the units in the system are subject to survival logic of self-help, then the general pressures of day-to-day life under conditions of anarchy will push the range of governmental functions towards sovereignty. If all the units are sovereign, then the organizing principle among them must, by definition, be anarchic. Thus, anarchy tends to generate like units and like units, by pursuing sovereignty, generate anarchy.<sup>31</sup>

What this means is that we do not need to be concerned with the functions performed by states, since they are all functionally alike. Therefore, in the neorealist conceptualization of structure, the dimension of differentiation of units drops out. What we are left with is an understanding of structure that differs only along the dimension of the distribution of capabilities. This situation emerges because differentiation of units and organizing principle as different sides of the same coin both drop out. The analysis of system change must therefore concentrate on the distribution of capabilities across units. From here

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<sup>31</sup> Buzan, p. 39. For a complete explanation of this argument see Kenneth N. Waltz, Theory of International Politics Reading, Mass.: Addison-Wesley, 1979, or Kenneth N. Waltz, "Political Structures" in Robert O. Keohane (ed.) Neorealism and its Critics New York: Columbia University Press, 1986, esp. chapter 4.

it is possible to move forward, on to the neorealist understanding of cooperation which is found in the concept of balance of power.

In keeping with the structural perspective of the neorealist school, the international system can be characterized as operating under conditions of anarchy where actors attend to their needs in a system of self-help, relying on no one else to help them achieve their goals. This, however, is not always the case, as alliances in international relations do occasionally occur and need to be explained. According to Waltz, since the international system structure varies only along the dimension of power, states will view themselves as positional actors. Any shift in the international structure, means by default, that any change in the distribution of power capabilities among the states that matter will cause states to redefine their general interests vis-à-vis other states in the system.

If we take a step backwards here, to develop a basic understanding of how balances of power operate, it should be possible to develop a clearer understanding of the relationship between structural change and cooperation. Balance of power begins with the fundamental assumption that states must strive to protect their independence while they interact in an anarchical system.<sup>32</sup> This leads states to pursue policies, following the rational actor model, that ensure that no one single state attempts to gain a dominant position in the international system, or on the other hand, destroy another state if the destruction of that state will de-stabilize the international order. Finally, balance of power theory also suggests that states would be prepared to enter into and alter the structure

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<sup>32</sup> Stephen D. Krasner, Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy. (Princeton: Princeton University Press, 1978), p. 37.

of alliances in order to preserve balance or equilibrium in the system.<sup>33</sup> According to Waltz, we should expect that under the conditions realized by neorealists, as relative capabilities change, coalition or alliance patterns should be altered as well.<sup>34</sup> Thus, balance of power operates in an anarchical system which is dominated by the principle of self help where the primary focus of states is survival. In order to ensure their survival, states will take such actions as they see necessary to ensure that one state does not dominate the system. This includes the decision to enter into alliances or coalitions against the dominant state in an attempt to counterbalance any disproportionate power capabilities acquired by one state. The prime motivating factor in the actions of the balancing states is mutuality of interests. Thus we have the basis for the neorealist perspective on cooperation.

Realist thought argues that there are essentially two major barriers to cooperation in international relations: states' concerns about relative achievement of gains, and states' concerns about cheating. Early realists, as well as some current realist writers such as Joseph Grieco, argue that in fact states in the international system do not cooperate because an anarchic international system that is governed by the concept of self help compels states to rely only upon themselves in the pursuit of their self interest. The basis for this belief is derived from the fear that today's friend might be tomorrow's enemy in war. As a result, states fear that achievements of joint gains that advantage a friend in the present (ex. technology transfers, arms sales etc.) might produce a

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<sup>33</sup> For a further elaboration on balance of power theory see Herbert Butterfield, "The Balance of Power" in Herbert Butterfield and Martin Wright (eds.) Diplomatic Investigations: Essays in the Theory of International Politics. Cambridge: Harvard University Press, 1968, and Morton A. Kaplan, System and Process in International Politics. New York: Wiley, Inc., 1957.

<sup>34</sup> Waltz as quoted in Keohane, "Theory of World Politics", p. 45.

more potent foe in the future.<sup>35</sup> Secondly, states fear that partners in cooperation will gain greater advantage as a result of non-compliance. This fear is illustrated by the single game play of prisoner's dilemma where D stands for defection and C stands for cooperation and produces a payoff matrix of DC>CC>DD>CD, where the first letter represents your partner's move. Thus, in an anarchical setting, there would be greater pressure on your partner to defect rather than to cooperate and thus they would be the recipient of greater returns at your expense.<sup>36</sup> Institutions for realists do not exert influence over international relations, as that would violate one of the fundamental assumptions of realism, that states, and more specifically only the states that matter, are the only important actors in the international system. Neorealists recognize that international institutions exist, they just refuse to recognize their contribution to international politics. As Grieco argues, international institutions appear to be unable to reshape state interests and instead they often appeared to become embroiled in, and paralyzed by, the disputes they were intended to solve.<sup>37</sup>

To this point, what have we learned about realism, neorealism and their perspectives on international cooperation? Realists were the first thinkers in international relations theory to view the interactions of states from a "scientific" point of view rather than a philosophical perspective. As well realists, much like the idealists, still thought of international interactions as manifestations of the nature of humanity, however, unlike utopianists, classical realists were the first to recognize the power of self-interested action as a possible explanation for

<sup>35</sup> Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism" International Organisation Vol. 42, no. 3 (Summer 1988), p. 487.

<sup>36</sup> For an in-depth analysis of Prisoners' Dilemma and cooperation under conditions of anarchy see Robert Axelrod and Robert O. Keohane "Achieving Cooperation Under Anarchy: Strategies and Institutions" World Politics and Robert Axelrod The Evolution of Cooperation New York: Basic Books, 1984.

<sup>37</sup> Grieco, "Anarchy and the Limits of Cooperation", p. 491.

state action in international politics. Unfortunately, they were unable to develop a satisfactory operational definition of power that differentiated power as a resource based on tangible and intangible assets and power as the ability to influence or alter the behaviour patterns of others.

Neorealists led by Kenneth Waltz picked up where classical realists left off and developed an understanding of state behaviour that found its foundation in the structure of the international system. Neorealists started by defining a system as being composed of a structure and interacting units. The logic behind this concept is based on the idea that the system is defined by the nature of the interaction of its units. As a corollary, the way in which units behave is a direct result of the structure of the system. Thus for neorealists, all state action can be understood in terms of the structure of the international system as revealed by the interaction of the individual units. According to neorealists, structures vary on three dimensions: the differentiation of the function of states, the ordering principle of the system, and the distribution of capabilities across like units. Furthermore, the logical examination presented above informs us that the ordering principle and the differentiation of function are simply different sides of the same coin, and that the only structural variation that matters is the distribution of capabilities. Thus, systematic change can be explained by a change in the distribution of capabilities across units.

As for the realist perspective on international relations, all that really needs to be said is that classical realists and neorealists alike recognize the existence of institutions in international politics, but they discount their importance in either explaining or accounting for cooperation among states. For neorealists, states act according to their own self interest which is fundamentally

determined by the structure of the international system, their place in that structure, and their position vis-à-vis other actors as defined in terms of power. In such an environment, states seek stability and balance in their search for self preservation. In such a system balance of power is the primary motivating factor that pushes states into alliances. But these alliances are continually shifting and are not a permanent fixture on the international landscape. As capabilities among states change, and as one state begins to dominate the system, other states will join in a coalition to counterbalance the dominant state, and if need be engage in violent conflict to ensure that the dominant state is no longer a threat to the stability of the system. As well, some states will prop up a weak or decaying state if it is perceived that the loss of that state would unduly upset the balance of the system.

Yet a fundamental question still exists: Why, after World War II, did so many international institutions emerge on the world stage, and why did they remain in existence for such a long period of time? Neorealist explanations offer little more than an overly parsimonious pronouncement that the shift from a multipolar to a bipolar international system caused the dominant states of the system to enter into alliances to counterbalance the alliances formed around the other pole in the system. Thus, simple self-interested action, both on the part of the dominant state and the weaker states, is the explanation. At a very basic level of understanding, such an answer may seem attractive. However it does not provide a satisfactory explanation of the role institutions play in the achievement of foreign policy objectives, and it fails to explain why there was a literal explosion of institutions onto the world scene after 1945. Thus we must turn to an alternative theoretical explanation of international politics if we are to more fully understand the role of institutions in international politics.

## LIBERALISM AND NEOLIBERAL INSTITUTIONALISM<sup>38</sup>

The Liberal approach to international relations finds its origins in classic liberal economic thought where self-interested actors engage in mutually rewarding exchange. Based in 19th Century laissez-faire economics, liberalism argues that harmony and order emerge from the interactions between fully informed actors who recognize the costs of conflict.<sup>39</sup> This basic idea of self-interested rationality forms the basis of cooperation. While liberalism was originally developed to explain the actions of individual actors in a domestic economic setting, the principles and core assumptions of liberalism have specific application to international relations.

Drawing an analogy among economics and international relations, liberals attempted to develop a link between the order that is characteristic of markets and the kind of ordered relations that develop between states. Liberals believed that states which sought to maximize their economic potential would allow unfettered exchanges between themselves. This would lead to an international division of labour based on the principles of comparative advantage, which would in turn lead to the growth of economic interdependence.<sup>40</sup> From this perspective, liberals viewed international relations as characterized by the same

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<sup>38</sup> The first place this term was encountered was in a 1988 article by Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism" International Organisation Vol. 42, no. 3 (Summer 1988). Since that time neoliberal institutionalism has gained wide acceptance in the discipline as the name for a theoretical derivative of neorealism which places greater emphasis on the role of institutions as an explanatory variable for cooperation in international relations.

<sup>39</sup> Arthur A. Stein, Why Nations Cooperate: Circumstance and Choice in International Relations. (Ithaca: Cornell University Press, 1990), p. 7. Also see Arthur A. Stein, "Governments, Economic Interdependence and International Cooperation" in Behaviour, Society, and Nuclear War Vol. III (ed.) Philip E. Tetlock et al New York: Oxford University Press, 1993.

<sup>40</sup> Stein, p. 7.



set of rules, norms and cooperative arrangements that characterized domestic political, economic and social relations.

Knowing that liberalism draws on the basics of 19th Century laissez-faire economics, it is easy to understand how the early liberals arrived at their conclusions on the nature of the international system. The absence of an international government was not perceived as a problem for state interactions. Like economic actors in a domestic laissez-faire economy, states as autonomous self interested actors would reach decisions or agreements with other states that would assure each actor a mutually beneficial outcome. From rational self-interested action would come order and stability.<sup>41</sup>

While liberals believe that cooperation is the norm in international relations, they also acknowledge that conflict does occur and is explainable. A core assumption of the liberal approach is that knowledge is a shared commodity among all actors. Conflict occurs only when there is a breakdown in communication which leads to a decline in shared knowledge. This in turn leads to misunderstanding and misperception about the actions of other actors.<sup>42</sup> Once the lines of communication have been restored, then states will again recognize the potential cost of conflict and the gains from cooperation.

However, this explanation leaves a number of important questions unanswered. For example, how do the lines of communication break down in

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<sup>41</sup> This idea of order emerging from rational self interested action forms the basis for game theoretical explanations of international relations. For example see, Robert Axelrod, The Evolution of Cooperation (New York: Basic Books, 1984) and Robert Axelrod and Robert O. Keohane, "Achieving Cooperation Under Anarchy: Strategies and Institutions" World Politics Vol. 38, no. 1 (October 1985), p. 227,

<sup>42</sup> Stein, p. 8.

the first place? Also, there seems to exist an inconsistency in the notion of rational self-interested action. Will it always lead to cooperation? Is this not what the idealists and utopianists believed, that an individual state's pursuit of its own interests would be the pursuit of the global interest? As well, what role do institutions play in facilitating cooperation, if any? If all states pursue rational self-interested policies that naturally lead to cooperation, then there should be no need for international institutions. Yet by simple observation we know that there are a bewildering number of institutions in the international system, the vast majority of which have emerged in the decades following World War II. How then do liberals account for this phenomenon?

The simple answer is that they cannot. Liberals simply argue that cooperative behaviour is inherent in the actions of international actors, and as a logical result there is neither a need nor a role for international institutions. In an attempt to find an explanation for the emergence and longevity of international institutions in the post-war era, a relatively new theoretical position has emerged, which builds on the basic understanding of the nature of international relations found in liberalism, and shares major core assumptions with neorealism. What has emerged is what Robert O. Keohane calls neoliberal institutionalism.

Keohane's conceptualization of neoliberal institutionalism rests on the thesis that variations in the institutionalization of the international system exert significant pressure on the behaviour of governments. Or, as Keohane has phrased it, "patterns of cooperation and discord can be understood only in the context of institutions that help to define the meaning and importance of state

action."<sup>43</sup> Neoliberal institutionalism allows students of international relations to conceptualize state interactions by putting forth the argument that state actions depend on the existence of institutional arrangements which affect the flow of information and opportunities to negotiate. As well, institutions improve the ability of governments to monitor others' compliance and to implement their own commitments - hence their ability to make credible commitments in the first place. And finally, institutional arrangements affect the prevailing expectations about the solidity of international agreements.<sup>44</sup>

Two basic assumptions about the nature of international interactions must be illustrated if neoliberal institutionalism can be used as an analytic tool. First, actors in the system must have some mutual interests, which is to say that they must perceive a potential gain from their cooperation. This point seems almost self evident. If states did not perceive that there were real gains to be achieved from cooperation, then there would exist a situation that closely resembles the neorealist view of self-help. Secondly, variations in the degree of institutionalization exert substantial influences on state behaviour. Here Keohane makes the argument that the level of institutionalization, whether highly organized and bureaucratized, such as the North Atlantic Treaty Organisation, or whether the organisation is a loose arrangement around which actors' preferences coalesce, for example the Ozone regime created by the Montreal Protocol, will affect actor behaviour.

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<sup>43</sup> Robert O. Keohane, "Neoliberal Institutionalism: A Perspective on World Politics" in Robert O. Keohane (ed.) International Institutions and State Power: Essays in International Relations Theory. (Boulder, Co.: Westview Press, 1989), p. 2.

<sup>44</sup> Keohane, "Neoliberal Institutionalism", p. 3.

However, before we press on with a discussion on how neoliberal institutionalism views cooperation in the international system, it is necessary to develop a working definition of institutions, as well as an understanding of the impact which institutions have on patterns of state behaviour. Institutions are defined by Keohane as "persistent and connected sets of rules (formal and informal) that prescribe behavioural roles, constrain activity and shape expectations".<sup>45</sup> When neoliberals ask whether an observed pattern of behaviour either constitutes or reflects an international institution, "they ask whether it is possible to identify persistent sets of rules that affect the behaviour of the actors".<sup>46</sup> Thus by studying international institutions, it is possible to generalize or theorize on the forces that are likely to have a significant impact on the behaviour of states, and as an extension it should then become possible to understand the patterns of cooperation and discord that exist in the international system.

Working from Keohane's definition of institutions, it is possible to conceptualize international institutions as falling into one of three categories. *Formal intergovernmental or cross-national non-governmental organisations* are thought of as purposive entities capable of monitoring activity and of reacting to it. They are deliberately set up and designed by states, and are bureaucratic with explicit rules and specific assignments of rules to individuals and groups. Secondly, there are *international regimes* which are institutions with explicit rules, agreed upon by states, that pertain to particular sets of issues in international politics. Finally, there are *conventions* which one might argue are in fact informal institutions, with implicit rules that shape actors' expectations as

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<sup>45</sup> Keohane, "Multilateralism: An Agenda for Research", p. 733.

<sup>46</sup> Keohane, "Multilateralism: An Agenda for Research", p. 732.

well as allow actors to understand one another and to coordinate their behaviour.<sup>47</sup> In order to fully understand what is meant by the concept of institutions, it is important to note that institutions can be measured along three dimensions. *Commonality* refers to the degree to which expectations about appropriate behaviour and understandings about how to interpret action are shared by participants in the system; *specificity* measures the degree to which these expectations are clearly specified in the form of rules; and *autonomy* means the extent to which the institution can alter its own rules rather than relying on outside agents to do so.<sup>48</sup> It is thus possible to conceive of international institutions as taking on a variety of forms with each type of institution varying along three dimensions.

To sum up then, if we return to our working definition of institutions, we find that they are understood as persistent and connected sets of rules, both formal and informal, that prescribe behavioural roles, constrain activity, and shape expectations. By performing these functions, institutions assume an important role in the international system, because they have an impact on the incentives that states encounter when they are calculating their cost-benefit analyses. Institutions also influence the perceptions that decision makers have of the roles they should play, as well as their assumptions about the motivations and perceived self interests of others. More to the point, they influence how actors define their interests and how the actions of others are interpreted. Thus neoliberal institutionalism argues that while states remain the most important actors in international politics, institutions act much like a government in a domestic neoliberal economy. That is, institutions do not formally constrain the

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<sup>47</sup> Keohane, "Neoliberal Institutionalism", pp. 3-4.

<sup>48</sup> Keohane, "Neoliberal Institutionalism", pp., 4-5.

actions of participants, but instead they establish the framework through which actors can communicate and thus establish mutually beneficial relations. This makes international interactions more transparent and diminishes states' concerns about non-compliance. Without altering the structure of the international system, institutions directly affect the actions of states and help explain why states choose to cooperate.

## MULTILATERALISM

In his article "International Relations Theory and Multilateralism: The Search for Foundations", James A. Caporaso explores what he calls the institutional approach to understanding multilateral cooperation. The starting point for Caporaso in developing what he calls an institutional paradigm is dissatisfaction with the systemic and pluralist approaches to international relations theory.<sup>49</sup> Caporaso argues rather convincingly that while both approaches have something to offer the discipline, they lack an overall ability to fully explain the motivations behind states' decisions toward cooperation. Rational choice approaches focus on individuals attempting to maximize their own utility function, pluralist approaches view policies and behaviour as results of the pulling and hauling of pressure groups, and systemic approaches explain state options in the terms of variations in the international structure. As Caporaso argues, most "choice-theoretic" approaches assume preferences and rules to be a given, which neglects the idea that institutions help to shape preferences. Systemic approaches demonstrate how states overcome collective decision problems, and they can tell us, given a particular distribution of

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<sup>49</sup> For support on this idea Caporaso points to G. John Ikenberry, David A. Lake and Michael Mastanduno, "Introduction: Approaches to Explaining Foreign Economic Policy" International Organisation Vol. 42 (Winter 1988), pp. 1-14.

interests, whether cooperation is likely, but they cannot inform us about the content of that solution. Thirdly, pluralism treats institutions as a transmission belt which ignores or fails to recognize that institutions can be conceived of as independent variables which affect the actions of states.<sup>50</sup>

In a similar line of thought, John Gerard Ruggie also takes a broad swipe at what he calls "traditional international relations theory" and argues that the current level of institutionalization in the international system must seem paradoxical in the context of these traditional theories.<sup>51</sup> According to Ruggie, norms and institutions do not matter much in the traditional literature to begin with, and when the issue of international institutions is addressed, "they are cast off as by-products of if not adjuncts to the relations of force and production."<sup>52</sup> Where traditional international relations literature does provide any substantive explanation of institutionalization, the "so-called theory of hegemonic stability" is all that is offered.<sup>53</sup> Ruggie even takes aim at his own theoretical base of neoliberal institutionalism by lamenting the fact that even institutionalists have been negligent in their duties. That is, they have paid little explicit and detailed analytic attention to what he considers to be a core feature of international institutional arrangements, namely their multilateral form. In an attempt to rectify this, Ruggie, Caporaso and Keohane, in separate articles, attempt to fill the theoretical void which has been observed.

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<sup>50</sup> James A Caporaso, "International Relations Theory and Multilateralism: The Search for Foundations" International Organisation Vol. 46, no. 3 (Summer 1992), pp. 621-622.

<sup>51</sup> John Gerard Ruggie, "Multilateralism: The Anatomy of an Institution" International Organisation Vol. 46, no. 3 (Summer 1992), p. 564.

<sup>52</sup> Ruggie, "Multilateralism", p. 564.

<sup>53</sup> Ruggie, "Multilateralism", p. 564.

It is necessary to recall at this time that the purpose here is to determine how international institutions shape the perceptions, expectations, and actions of states in the international system. Keohane defines institutions as persistent and connected sets of rules, formal and informal, that prescribe behavioural roles, constrain activity, and shape expectations. To define multilateral institutions, Keohane argues that they are multilateral arrangements with persistent sets of rules that can be distinguished from other forms of multilateralism, such as ad hoc meetings and short-term arrangements to solve particular problems. These institutions may take the form of international regimes - institutions with explicit rules, agreed upon by governments, that pertain to particular sets of issues in international relations- or bureaucratic *organisations*, which assign specific professional roles to their employees.<sup>54</sup> To arrive at this definition Keohane utilizes a conceptualization of multilateralism which is defined as the practice of coordinating national policies in groups of three or more states, through ad hoc arrangements or by means of institutions.

It should be noted at this point that there exists a debate concerning this definition of multilateralism and Keohane's decision to use three as the threshold for the existence of a multilateral institution. The question has been raised that if we use this definition, then NAFTA becomes multilateral which, most would agree it is not. As an alternative the term plurilateral has been suggested, where a plurilateral approach would involve more countries than a bilateral approach but fewer than a multilateral. Ted Cohn has argued that multilateralism involves international *organisations* which do not limit their membership according to

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<sup>54</sup> Keohane, "Multilateralism: An Agenda for Research", pp. 732-733.



geographical areas, cultural groups or economic or political criteria.<sup>55</sup> Examples of multilateral *organisations* would be the UN, the GATT, and the IMF. Plurilateral *organisations* on the other hand, are more limited in membership and might include such *organisations* as the Cairns Group, the OECD, or the Group of Seven. This of course raises some questions concerning how international relations theorists view the world. The first concern regarding the use of plurilateral is that it would move an organisation such as NATO from the realm of multilateral to plurilateral, which would provoke a response from writers such as John Ruggie and Steve Weber who might argue that this is not the case. And secondly, this debate begs the question, if not three then when does an *organisation* become multilateral, at five, seven or twelve. While the idea of plurilateralism is very interesting, in the end it muddies the water in this area rather than providing greater clarification.

John Ruggie also takes exception to Keohane's definition although in a manner different from Cohn. He argues that the focus of the new institutionalists - what Keohane calls neoliberal institutionalism - has been on cooperation and institutions in a generic sense, and he describes Keohane's definition as purely nominal. Ruggie suggests that it is necessary to build on the work of William Diebold, who suggests that it is important to distinguish between formal and substantive multilateralism.<sup>56</sup> The nominal or formal definition of multilateralism expresses only the number of participants in the arrangement, in the case of Keohane's definition, three or more, while the substantive or qualitative expression of multilateralism tells us more about the kind of relations that are

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<sup>55</sup> Theodore H. Cohn, "Canada and the Ongoing Impasse Over Agricultural Protection" in A. Claire Cutler and Mark W. Zacher (eds.) Canadian Foreign Policy and International Economic Regimes (Vancouver: University of British Columbia Press, 1992), pp. 83-84.

<sup>56</sup> See William Diebold, "The History and the Issues" in William Diebold (ed.) Bilateralism, Multilateralism and Canada in U.S. Trade Policy Cambridge, Mass.: Ballinger, 1988.

instituted between the actors in the institution. Thus, from Ruggie's perspective, what is distinctive about multilateralism is not just that it co-ordinates national policies in groups of three or more states, but that it does so on the basis of certain principles of ordering relations among the participating states.<sup>57</sup>

James Caporaso also laments the lack of attention that international relations theorists have devoted to multilateralism as an explanatory variable. Caporaso does not argue that multilateral activities or *organisations* have been ignored, and he points to a large body of literature produced on the United Nations, the GATT and the Law of the Sea Negotiations. Rather, his complaint is that multilateralism is not extensively employed as a theoretical category and that it is rarely used as an explanatory concept.<sup>58</sup> To rectify the situation, Caporaso sets out to develop a "multilateral" perspective for viewing institutionalized cooperation.

Caporaso builds on the body of literature developed by John Ruggie<sup>59</sup> which established the notion of multilateralism as an architectural form, or an *organisational* principle of international interactions. At this point it is important to point out that the *institution* of multilateralism must be distinguished from *multilateral* institutions. As an organizing principle the *institution* of multilateralism can be distinguished from other forms of multilateralism by the existence of three properties: indivisibility, generalized principles of conduct and diffuse reciprocity.<sup>60</sup> Indivisibility is the scope, both geographic and functional,

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<sup>57</sup> Ruggie, "Multilateralism: The Anatomy of an Institution", pp. 566-567.

<sup>58</sup> Caporaso, "International Relations Theory and Multilateralism", p. 601.

<sup>59</sup> These works include "Unraveling the World Order: The United States and the Future of Multilateralism", mimeograph, University of California, San Diego, 1989; and "Multilateralism: The Anatomy of and Institution" International Organisation Vol. 46, no. 3 (Summer 1992) pp. 561-598.

<sup>60</sup> Caporaso, "International Relations Theory and Multilateralism", p. 601.

over which costs and benefits are distributed. By this we mean that all states are affected more or less equally by the same stimuli. In economic multilateralism, all states are affected by recession, and in multilateral security arrangements, peace is considered to be indivisible. That is, an attack against one is an attack against all. Generalized principles of conduct can be understood as norms or the expected behaviour of states across a variety of issue areas, rather than responses developed case by case as determined by particular interests and specific situations. Diffuse reciprocity means that states do not expect a direct tit-for-tat or quid pro quo for each concession or altered pattern of behaviour. Rather, states adjust their time horizons to the long term and settle for benefits over the long run and over a variety of issue areas.<sup>61</sup> *Multilateral* institutions, on the other hand, focus more on the *organisational* elements of international relations, and can be characterized by permanent locations, the existence of a headquarters as well as an ongoing staff and secretariat.<sup>62</sup>

## MULTILATERALISM AND COOPERATION

To this point we have addressed the concept of institutions, multilateral institutions, and the institution of multilateralism. From here it is now possible to look at the concept of cooperation from the perspective of multilateralism, which includes both institutions of multilateralism and multilateral institutions. In her

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<sup>61</sup> For a good discussion of diffuse reciprocity see Robert O. Keohane, "Reciprocity in International Relations" *International Organisation* Vol. 40, (Winter 1986), pp. 1-27, or chapter 6 "Reciprocity in International Relations" in Robert O. Keohane (ed.) *International Institutions and State Power: Essays in International Relations Theory* Boulder, Co.: Westview Press, 1989.

<sup>62</sup> For an excellent discussion on the differences between the institution of multilateralism and multilateral institutions, as well as a fine neoliberal institutionalist treatment of multilateralism, see Lisa L. Martin, "Interests, Power, and Multilateralism" *International Organisation* Vol. 46, no. 4 (Autumn 1992), pp. 766-792.

recent work *Coercive Cooperation*, Lisa L. Martin identified three main types of cooperation problems: coincidence, coercion, and coadjustment.<sup>63</sup> Martin defines coincidence as a situation where the equilibrium outcome is for both states to cooperate since states face relatively few conflicts of interest. This situation is also described as harmony of interests. Coercion occurs when asymmetrical interests exist. In this situation there is usually one strong state that prefers to undertake unilateral action rather than see no action taken at all. Here, the strong actor always prefers bilateral or multilateral action, so the leading state faces the problem of convincing other states to follow its lead. In order to do this, the leading state has to find some way of coercing others into action, through linkages to other issues, and through the use of threats and promises. Any use of threats or promises, must be perceived by the other states as being real and credible. Finally, co-adjustment occurs when no one state has a dominant strategy for facilitating cooperation and there exists a high degree of conflict of interests between states. Under co-adjustment, states act in some coordinated fashion but stop short of any fully utilised coordinated action. In this situation states face the problem of moving away from an equilibrium that leaves all dissatisfied.

These three definitions of cooperation roughly correspond to the three major paradigms in the international relations literature. Traditional realists would argue that state behaviour that appears at first to be cooperative is in fact most likely the result of coercion by a major power. This model is best illustrated by the malevolent version of hegemonic stability. Robert Gilpin has argued that hegemons use their power to force other states to behave cooperatively. The

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<sup>63</sup> Lisa L. Martin, *Coercive Cooperation: Explaining Multilateral Economic Sanctions* (Princeton: Princeton University Press, 1992), p. 25.

hegemon is able to do this because it has significant control over vital resources (natural, strategic, financial, economic), and can forge linkages that increase negative sanctions to those who may choose not to cooperate, or at the same time extend benefits to those who do choose to cooperate. Gilpin describes this as the concept of the "security racket" where hegemony link security to economic issues. In addition, control over the rules of the international system provide the hegemon with a powerful lever to be used on other states to enforce compliance. Even if there are no direct linkages or threats, hegemony possess the capability to manipulate both institutions and economic conditions to alter the costs and benefits associated with particular courses of action.<sup>64</sup>

Coincidence can best be identified with the traditional liberal school of thought. According to the liberals, cooperation exists because states have a mutual interest in cooperating. It is possible to identify several areas where coincidence would emerge as the preferred type of cooperation: the environment, avoidance of war, or free trade. In such situations of harmony, while the international system would not be free of conflict, the emergence of cooperation in a number of issue areas should really not come as a surprise.<sup>65</sup>

There is something unsatisfying about both the realist and liberal perspectives on cooperation. As realists would point out, the instances where there is a complete harmony of interests between states are rare. Secondly, the explanatory power of the liberal theory is severely limited. For example, it cannot explain cooperation when there exists a conflict of interest. At the same

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<sup>64</sup>Robert Gilpin, War and Change in the World Politics (Cambridge: Cambridge University Press, 1981), pp. 9-10.

<sup>65</sup> Martin, Coercive Cooperation, p. 29. Martin draws heavily on the perspective of David Mitrany, The Functional Theory of Politics London: St. Martin's Press, 1975, for insights into the coincidence perspective.

time, the realist perspective fails to account for instances where states with low levels of common interest freely choose to cooperate. The best example of this situation is the creation and longevity of the European Community. Thus we reach the challenge that has been picked up by the neoliberal institutionalists. Neoliberals have taken up the task of trying to explain the existence of cooperation where states have conflicting interests. Basing their approach on realist assumptions about the nature of state interests, neoliberals try to demonstrate that cooperation in the form of mutual policy adjustment can occur. Thus, from this perspective, cooperation is essentially a problem of mutual policy adjustment that enables states to reach mutually rewarding outcomes.<sup>66</sup>

Martin goes to great lengths to reinforce her argument that all three perspectives on cooperation offer valid insights into the world of international cooperation, but each perspective is best suited for specific constellations of interests. As such, any debate over which perspective is the "truth" is somewhat misdirected. Students of international relations should acknowledge that, in order to understand the problem of cooperation among states, it is necessary to acknowledge that international politics creates a wide range of cooperation problems, and that explanations of how states cooperate will vary depending on specific sets of interests.<sup>67</sup>

Since we are concerned primarily with the issue of international cooperation in the context of multilateral institutions, it seems appropriate that we follow Martin's advice and use a theoretical approach that is best suited to that constellation of interests. To that end, it is necessary to explain in greater detail

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<sup>66</sup> Martin, Coercive Cooperation, p. 30.

<sup>67</sup> Martin, Coercive Cooperation, p. 30.

what is meant by coadjustment. As we mentioned earlier, coadjustment cooperation occurs when there exists a constellation of interests where no state has an incentive to cooperate unconditionally. (Here we refer back the prisoners' dilemma payoff matrix of  $DC > CC > DD > CD$ .) States find themselves in a situation of mutual discord, and their individual decisions against taking joint action makes them all worse off than they would have been had they opted for joint action. Arthur Stein refers to coadjustment as the dilemma of common interest. This dilemma of common interest arises when independent decision making leads to outcomes in which all actors agree that another outcome would be preferable.<sup>68</sup> In such an instance, a pattern of collaboration is required if the actors are to avoid the least preferred outcome. Through coadjustment, states then are able to find ways to make themselves better off. Thus, collaboration type cooperation can be viewed as a rational, self-interested activity, with the caveat that other states must continue to cooperate as well.

Understanding how actors are able to adjust their policy preferences in situations of coadjustment has produced a considerable body of literature within the discipline, which has identified a number of factors conducive to the emergence of cooperative strategies.<sup>69</sup> Since we are primarily concerned with the role of institutions, it is necessary to limit our scope to the role of international institutions. According to Martin, international institutions can be thought of as powerful tools for facilitating coadjustment. Institutions embody norms that offer states valuable standards which they can use to measure and evaluate the behaviour of other states, as well, institutions also help states to

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<sup>68</sup> Stein, "Why Nations Cooperate", p. 32.

<sup>69</sup> Two major contributions to this body of literature include Robert Axelrod, The Evolution of Cooperation New York: Basic Books, 1984, and Kenneth Oye, "Explaining Cooperation Under Anarchy" in Kenneth Oye (ed.) Cooperation Under Anarchy Princeton: Princeton University Press, 1986.

monitor one another's behavior.<sup>70</sup> In other words, international institutions make international interactions more transparent, and help to lower the transaction costs of coadjustment.<sup>71</sup>

Stein utilizes a slightly different approach in his analysis of coadjustment cooperation. In what Stein calls the dilemmas of common interest, institutions, specifically regimes, can facilitate policy adjustment by a mechanism known as collaboration.<sup>72</sup> Stein argues that regimes arise because actors forego independent decision making in order to deal with the dilemmas of common interest. It is in the self-interest of the various actors to establish regimes since mutually agreed to outcomes are preferable to those that are or might be reached independently. It is, therefore, in states' mutual interest to establish arrangements that shape not only their behaviour but also the behaviour of others and allow expectations to converge. To counter the problem of the common interest dilemma, states must collaborate, and the regimes that are created to facilitate this collaboration must specify strict patterns of behaviour and ensure that no one cheats. Since every other actor will require assurances that the others will refrain from implementing their own rational self-interested choice, such collaboration requires that there is a certain degree of formalization. Thus the regime must specify what constitutes cooperation and what constitutes cheating. As well, each actor must be assured of its own ability to effectively detect others' cheating.<sup>73</sup> This mirrors very closely Martin's conceptualization of institutionalized coadjustment.

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<sup>70</sup> Martin, Coercive Cooperation, p. 39.

<sup>71</sup> For greater insights into the issue of transaction costs, see Robert O. Keohane, "International Institutions: Two Approaches" International Studies Quarterly Vol. 32, no. 4 (December 1988) pp. 379-396 and Robert O. Keohane After Hegemony: Cooperation and Discord in the World Political Economy Princeton: Princeton University Press, 1984.

<sup>72</sup> Stein, Why Nations Cooperate, p. 39.

<sup>73</sup> Stein, Why Nations Cooperate, p.40.



What appears to be developing here is a sense of growing interdependence, where states begin to agree to limits on their own sovereign actions in order to ensure that other states in the system are constrained in their actions as well. Cooperation theory seems at this point to be running contrary to the fundamental assumption of the nature of the international system: that states are sovereign and operate in an anarchic environment. However, Robert Keohane argues that while interdependence challenges the effectiveness of narrowly defined self interest based policies, it does not challenge the formal sovereignty of states.<sup>74</sup> In fact, Keohane believes that in order for states to be effective in their pursuit of their perceived national interest they must be willing to place constraints on their own freedom of action. States will follow this course of action in order to ensure that they obtain the desired action from their partners.<sup>75</sup> States will voluntarily give up some operational sovereignty in return for improved predictability of the actions of others.

States are able to achieve this level of constraint through the use of international institutions since, the institutions themselves do not provide a challenge to the formal sovereignty of states, rather they are built on the principle of sovereignty. States freely make the decision to place limits on their freedom of action in return for similar restraints on other actors because the potential cost of pursuing independent action is far too high. Regimes and international *organisations* in this manner act as a stabilizing force by making the actions of others more transparent. This transparency then acts as the

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<sup>74</sup> Robert O. Keohane, "Sovereignty, Interdependence, and International Institutions" Harvard University Working Paper Series Working Paper No. 1 - Spring 1991 (Cambridge, Ma.: Harvard University Centre for International Affairs, 1991), p. 1.

<sup>75</sup> Keohane, "Sovereignty, Interdependence, and International Institutions", p. 8.

constraining force without formally challenging the operational sovereignty of the state. Thus the interdependence created by international institutions does not necessarily conflict with the principle assumption of state sovereignty. Rather, it builds on it as states recognize that in the pursuit of their national interest, the cost of placing restraints on one's own actions is far outweighed by the instability that is the result of a less transparent international system.

## **CONCLUSION**

The post-war period was a time of incredible growth in the field of international relations. Idealism, which had been the dominant theoretical explanation of state action in the interwar period, had been thoroughly discredited by the outbreak of World War II, and was subsequently replaced by realism as the first scientific attempt at explaining the behaviour of states in the arena of international politics. From realism came neorealism, which built on the strengths of realism and provided greater insights into the way states behaved, and introduced the concept of system structure to the discipline. Liberals and neoliberals advanced the field of international relations further by challenging the pessimistic realist and neorealist view of cooperation, and attempted to explain why nation states choose to cooperate. Neoliberal institutionalists asked why international institutions emerged after the war and what impact they had on the actions of states. Multilateralists emerged to take neoliberalism one step further and asked how multilateral institutions affect the interests of states and help to alter patterns of state behaviour.

Realism and neorealism's greatest strength rests in their parsimonious explanation of state behaviour. For realists, power which is understood in terms

of national capabilities, is the primary influence on the actions of states. States make decisions based on rational self-interest, which is derived from their perception of their relationship with other states in the system. Neorealists built on the idea of power and rational self-interested action and introduced the notion of system structure into the discipline. Neorealists conceive of the international system as consisting of two parts: structure, and the states that make up the system. It is the idea of structure that makes it possible to understand the actions of states. According to neorealists, structure is influenced by three elements, the distribution of capabilities, the function that states perform and whether the system is hierarchic or anarchic. The most important element is the distribution of capabilities. As the distribution of capabilities change over time, so will the actions of the states in the system, with respect to the other states in the system.

With respect to the issue of cooperation, both realists and neorealists believe that cooperation is not indigenous to international relations. States do not freely enter into cooperative arrangements either out of fear that the partner will cheat, or that the other partner will receive greater benefits and become a more potent enemy in the future. However, neorealists do concede that states will enter into alliances with other states if it is in their national interest to do so. In most instances, this will only occur when the stability of the international system is threatened by one state that has become disproportionately more powerful than any other state in the system. In order to rectify the situation, two or more weaker states will form an alliance in an attempt to restore equilibrium to the system. Neorealists make it very clear that these cooperative arrangements are temporary and are the direct result of a perceived threat to a state's national interest.

Liberals and neoliberal institutionalists have a somewhat different view of the nature of the international system and international politics. While sharing similar views on the importance of structure in understanding international politics, liberals do not view international interactions as a zero-sum game. Rather, liberals believe that much like a laissez-faire economy, international relations are in fact harmonious in nature as each actor is able to recognize the gains to be made from cooperating. From this, states will freely enter into cooperative arrangements in the pursuit of their national interests. In explaining conflict, liberals argue that a breakdown in communication lead to conflict, and once the lines of communication have been restored, states will again recognize their harmony of interests.

Neoliberal institutionalists have built on the liberal notion of harmony of interests in international relations, and have moved forward and attempted to explain the rise of institutions in modern international relations. Neoliberals argue that institutions facilitate cooperation in international relations by formalizing the means of communications between states. They establish rules and guidelines for the behaviour of states and make it possible for states to determine when others are cheating. As well, they provide a forum for states to exchange information freely which makes the process of international politics more transparent. By increasing the transparency of international interactions the cost of cooperating is lowered as the ability of one partner to cheat is severely diminished.

Multilateralists have emerged as a result of a dissatisfaction with both neorealist and neoliberal explanations for the emergence of multilateral

international institutions. Multilateralists have attempted to explain international cooperation in terms of the institutionalization of the the international system. They have taken issue with what they perceive to be the purely nominal definition of international institutions put forward by neoliberals. Instead of defining institutions along nominal lines, that is only in terms of the number of states involved, multilateralists have argued that it is necessary to distinguish between the institution of multilateralism and multilateral institutions. The institution of multilateralism can be understood as possessing three properties: indivisibility, generalized principles of conduct, and diffuse reciprocity. By examining institutions along these lines, it is possible to evaluate the impact the institution has on modifying state behaviour.

While both realism and neorealism offer interesting insights into the actions of states in the international system, they lose a significant portion of their explanatory power when it comes to explaining formal or institutionalized cooperation in the international system. Neorealism's greatest contribution to the understanding of international interactions is its recognition of the importance of structure and the impact structural change has on the actions of states. Neoliberals have built upon many of the good ideas found in neorealism and have been able to move the discipline forward, particularly in explaining why states choose to cooperate and why international institutions have become such an important part of the international system. Multilateralists have also made a significant contribution to the understanding of cooperation in international relations. Their primary contribution has been the idea that there is such an entity as the institution of multilateralism. This has helped move the discipline forward from a purely nominal understanding of multilateral institutions to a more substantive conceptualization of institutions. This has greatly improved the

level of understanding of the question of the role that institutions play in international politics.

Both neoliberalism and multilateralism have contributed a considerable amount to the knowledge base that forms the bedrock of international relations. While adding to the complexity of international relations theory, they have managed to maintain a certain parsimonious element which is derived from their roots in neorealism. Neoliberals maintain a systemic level of analysis which helps limit the complexity of explaining foreign policy decision-making. As well, only neoliberalism and multilateralism offer sufficient explanations for the emergence and impact of institutions in international relations. They provide a fundamental explanation of cooperation in international relations as well as the role that institutions play in facilitating cooperative behaviour. In all, neoliberalism and multilateralism offer the best insights into the world of international cooperation.

## **Chapter Three**

### **Multilateralism in Post-Cold War Canadian Security Policy:**

#### **A Case Study of the North Atlantic Treaty Organisation**

##### **INTRODUCTION**

What role will Canada play in a post-Cold War NATO? This seems like a simple enough question. However, the complexity of the answer may surprise some. It is a truism that the issue of Canadian membership in the North Atlantic Treaty Organisation has long been the subject of debate. It is also true that this debate has increased in intensity since 1987 when, Mr. Gorbachev's programmes of openness and restructuring appeared to be well anchored in the then Soviet Union, and there appeared to be a sustained thaw in the relations between the superpowers. With the collapse of the East European regional system in 1989, and the subsequent collapse of the former Soviet Union in 1991 which brought about a fundamental restructuring of the international order, there has been a growing perception that the time has come to review not only the current Canadian role in the Atlantic alliance, but also the question of continued Canadian participation.

During the post-war years and continuing today, the policy elites at Foreign Affairs have viewed Canadian security almost exclusively in terms of North American security in the context of east-west relations. First in the era of long range bombers, then with intercontinental ballistic missiles, and later with long-range air and sea launch cruise missiles, the security of Canada, it was believed, rested with the security of North America. This line of thought rested

on the assumption that the only military threat to North America would be from a nuclear exchange between the superpowers, which would occur possibly as a result of an escalation of a crisis in Europe. Thus, post-war Canadian security policy was designed to prevent crisis in Europe.<sup>76</sup> To achieve this end, Canadian foreign policy-makers felt it necessary to encourage Canadian participation in regional and global collective security arrangements. This participation was designed not only as a deterrent to possible Soviet aggression, but also as a counter-balance to any American attempts at unilateral action against the Soviet Union. An additional rationale which has since re-emerged in the past four years was to oversee the orderly re-integration of West Germany (and now Germany) into the international system.

Now, with the major threat to Canadian security greatly diminished and a radically altered international structure beginning to emerge, there is a need to re-evaluate some of the fundamentals of post-war Canadian foreign and defence policy. The multilateral approach to defence policy which has been the bedrock of Canadian defence policy for 45 years, is now subject to intense scrutiny. Some of the questions that now need to be asked include: What are Canadian security interests in post-Cold War Europe? What role if any will Canada have in the evolving security structures and institutions? How will the possible emergence of a "two pillar" North Atlantic Treaty Organisation (NATO) affect future Canadian participation in NATO? Is it still in Canadian interests to pursue policies of multilateral collective defence? How will our economic and security

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<sup>76</sup> While Europe would have been the most likely setting for a confrontation between NATO and the Warsaw Treaty Organisation, it was generally believed that the spark which would ignite a European conflict would come from a Third World conflict which would draw in the two superpowers and transfer the confrontation to Europe. So while a conflict in Europe remained the greatest threat to Canadian security, policy planners were well aware that the origins of any European conflict could originate in either Southeast Asia, Africa, or the Middle East.



relationship with the United States affect Canadian foreign and security policy with respect to Europe in general and NATO in particular?

A central theme running through all of these questions is that of the utility of multilateralism. This question of the continuing utility of multilateralism in Canadian defence policy is a complex one that embraces a myriad of issues, from the nature of the Canada-US economic and defence relationship to the emerging security structures in Europe, all of which must be viewed in the context of a changing international structure. The purpose of this chapter will be to explore the broader question of continued Canadian participation in multilateral institutions in the post-Cold War international order. The approach that is to be used in this analysis can be described as one of historical structural comparison. The theoretical assumption upon which this analysis rests is one that argues that the traumatic shift in the international structure which occurred between the years 1989 - 1991 should have a significant impact on the way Canadian security interests are perceived by decision-makers. As a result, we must question whether existing institutions, created and cultivated during the bipolar Cold War system, are still useful or valid in the current international structure. The problem which is faced is that it is not entirely possible to say with any authority what type of international structure now exists. Whether it is an American dominated (when limited to military concerns) unipolar system or a multipolar (when expanded to encompass economic matters) system is a question that has yet to be answered. About the best that is possible is to simply state that while we cannot say what it is, we know what it is not.

If the aim is to utilize a structuralist approach to address the question of multilateralism in Canadian security policy in the post-Cold War environment,

then the analysis must begin with an examination of the conditions under which NATO was created.<sup>77</sup> In order to make a valid assessment of the continuing utility of multilateralism in a post-Cold War environment, it is necessary to understand the conditions under which multilateralism in Canadian foreign policy was born, flourished and evolved. From this basis, it is possible then to compare the structural circumstances surrounding the origins and growth of NATO with the structural circumstances surrounding NATO's current role in the post-Cold War international system. This comparison should then provide the foundation of a systemic analysis of the continuing utility of multilateralism.

This analysis should provide not only a thorough understanding of the systemic influences which led to the formation of a multilateral collective defence organisation, but also the continuing value of NATO as a vehicle for the protection and articulation of post-Cold War Canadian security interests. The first section of this chapter will explore the origins of NATO primarily from the Canadian perspective. Attention will be drawn to the British and American perspectives on NATO's origins with particular emphasis placed on significant post-war policy convergence and divergence. This approach will provide the context necessary for understanding how Canada, the United States and the United Kingdom perceived the structure and nature of the international system, as well as the conflict which resulted. As well, it should shed some light on how

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<sup>77</sup> A structuralist approach would be one that attempts to explain state behaviour by looking at the actors in the international system and how they relate to one another. Neorealists understand the international system as consisting of two basic elements: actors and structure. The structure of the international system is altered when there is a change in the distribution of capabilities along the actors across the system. Thus a structuralist approach would examine how the change in the distribution of capabilities would affect the structure of the international system and the impact that would have on the foreign policy of states in the system.

decision makers in the three states viewed multilateralism as a method of managing structural based conflict.<sup>78</sup>

The next section will look at the changing nature of the Canadian security environment with particular emphasis placed on Europe. This section will examine new threats that have emerged in the post-Cold War environment such as German unification, the rise of nationalism, the Russian question and the former Soviet republics, and how these threats are likely to have an impact on Canadian security interests. These new threats will be examined in the context of the changing role of European security institutions such as NATO, the Conference on Security and Cooperation in Europe (CSCE) and the Western European Union (WEU), as well as such emerging institutions as the North Atlantic Cooperation Council and the Partnership for Peace initiative. The aim of this section will be three-fold: 1) To provide an analysis of the evolving post-Cold War European security situation; 2) To form an understanding of the emerging European security architecture; and 3) To establish the context in which to view Canadian security policy towards Europe.

The final section will focus on Canadian reactions to the new international security environment. Particular emphasis will be placed on a spatial analysis of Canadian-American relations by taking into account the realities of Canada's geostrategic location. This "spatial analysis" reflects the fact that our proximity to the United States has had and will continue to have a

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<sup>78</sup> The Cold War, while primarily an ideological conflict between the United States and the former Soviet Union, was also a structural conflict because its emergence and longevity was caused by a specific systemic structure, that being bi-polar. As a result of the bi-polar nature of the international system, each state was forced into a competitive position vis-a-vis the other in order to ensure its survival. When the structure of the international system changed, the conflict between the two superpowers moderated considerably.

tremendous influence on the nature and direction of Canadian foreign policy, especially as it relates to issues of security and defence. The importance of US influence cannot be underestimated, as it provides the necessary context for understanding Canadian reactions to post-Cold War challenges to multilateralism and internationalism.

This section will also examine the future role, if any, for Canada in the evolving European security architecture. Because Canada is not a European power, but has continued interests in European security issues, any discussion of Canadian participation in European security has to take place in the context of Canadian participation in NATO. The rationale here is that NATO is the only functional and functioning organisation designed to deal with European security issues to which Canada belongs. This is in comparison to the CSCE for example which, despite the best attempts of many European states to champion, seems somewhat moribund as its deference to the EC in the Yugoslav matter clearly demonstrated.<sup>79</sup> Questions concerning what form NATO participation in European security affairs might take and the future evolution of the organisation are of considerable importance to Canadian foreign policy makers. As it stands now, there is considerable pressure from some European states to further develop and institutionalize the two-pillar concept of NATO. This is a prospect that the Canadian foreign policy elite would like to avoid as it would isolate Canada on the North American continent with the United States, reversing almost 128 years of defence policy

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<sup>79</sup>See Alexander Moens, "A New Security Strategy for Europe" in Canada Among Nations, 1994: A Part of the Peace (eds.) Maureen Appel Molot and Harold von Riekhoff (Ottawa: Carleton University Press, 1994), p. 158.

NATO's future is going to be shaped not only by structural changes in the international system, but also by the evolution of other European security institutions such as the WEU, the European Union (EU) and perhaps the CSCE. The main impact that these institutional changes will have on NATO centres around what role the WEU, EU, and the CSCE will eventually assume in European security, and the impact that will have on the further development and strengthening of a European pillar in NATO. It will be argued that a strengthened European pillar will cause a two-pillar or "dumbbell" NATO to emerge. In such a scenario, NATO with a European pillar and a North American pillar would force Canada into the position of being the 'odd man out'.

The structural shift which occurred between the years 1989 and 1991 has had, and will continue to have, a profound influence on the nature and direction of Canadian security and defence policy. The challenge that Canadian policy makers face is one of determining how Canadian security interests can best be protected in an evolving European security structure that seems to be at the same time moving away from multilateralism and towards greater integration at all levels. As this chapter plans to demonstrate, the origins and evolution of NATO and other post-war European security institutions have been greatly affected by changes in the international system structure. The challenge that lies ahead is to determine how this most recent and most significant of changes will affect the focus, direction, and aims of Canadian foreign policy. In meeting this challenge, foreign policy planners must take into account such diverse concerns as the evolving Canada-US relationship and the evolution of European security institutions, and Europe's own role in its evolving security structure. The simple question that we started with has at first glance proven to be quite complex. It has also raised a number of other important questions that must be

considered if we are to find the answer to the larger question. The starting point in the search for answers must then be with the origins of NATO and Canadian perceptions of responses to security threats evolving from the Cold War.

## THE GENESIS OF THE NORTH ATLANTIC TREATY ORGANISATION

Much work has been undertaken that attempts to illustrate Canadian motivations towards pushing for the creation of the North Atlantic Alliance. However, much of this body of literature is historically oriented, and while it helps us to understand who was involved and what decisions were made, it generally fails to provide us with an understanding of the forces that influenced the policy choices made. At present the best description of the early post-war Canadian position towards European security would be as seeking to protect the national interest. This idea of "the national interest" could broadly be defined as contributing to the preservation of a stable international system free from conflict, where Canadians could maintain and expand traditional trading relationships with the United States and Western Europe, while working to avoid being isolated with the United States on the North American continent.

The national or strategic interest of Canada did not vary widely with the national interests of either the United States or the United Kingdom. Not surprisingly then, the policy elite at the Department of External Affairs<sup>80</sup> tended to hold views similar to both the Americans and British regarding the nature of the threat to Western Europe and North America.<sup>81</sup> Early post-war opinion in

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<sup>80</sup> The major players at External Affairs in the immediate post-war years, and specifically the critical 1947-49 years, included Lester Pearson, Hume Wrong, Escott Reid, Dana Wilgress, Charles Ritchie, A.D.P. Heeney, and Norman Robertson.

<sup>81</sup> For a detailed account of Canadian perceptions of the early Soviet threat, see Don Page and Don Munton, "Canadian Images of the Cold War 1946-7" International Journal Vol. 32, no. 3

the Department of External Affairs is best exemplified by Dana Wilgress, Canadian Ambassador to the Soviet Union, in his dispatches to Lester Pearson regarding Soviet intentions toward Western Europe:

I am...convinced that the Soviet government are anxious to avoid war, that they should desire above all else a long period of peace in which to repair their shattered economy and strengthen it still further for a possible future trial of strength and that they are no longer interested in spreading communism for its own sake. But because the Soviet Government is run by a handful of men and is dominated by a strong personality with absolute dictatorial powers, without having to pay regard to the will of the people, they cannot refrain from following the dictates of personal ambition which lead them to seek the exploitation of the advantages to be gained from temporary situations.<sup>82</sup>

Wilgress went on to state that:

This interpretation of Soviet policy as opportunist is at variance with that expressed by those who hold that the Soviet government are working to a definite plan and know just what they want...I believe that the day-to-day manifestations of Soviet policy are nothing more than the revelations of the intuitions of Generalissimo Stalin and his beliefs of the extent to which he can go in pushing Soviet interests without incurring undue risks.<sup>83</sup>

This perception of Soviet intention was further cultivated by Escott Reid, Head, Second Political Division, Department of External Affairs (Reid's position was

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(Summer 1977) pp. 577-604; Escott Reid, Time of Fear and Hope: The Making of the North Atlantic Treaty, 1947-1949 Toronto: McClelland and Stewart, 1977; James Eayrs, In Defence of Canada: Growing Up Allied Vol. IV Toronto: University of Toronto Press, 1980 and; John W. Holmes, The Shaping of Peace: Canada and the Search for World Order 1943-57 Toronto: University of Toronto Press, 1982.

<sup>82</sup> James Eayrs, In Defence of Canada: Growing Up Allied Vol. IV (Toronto: University of Toronto Press, 1980), p.6.

<sup>83</sup> James Eayrs, In Defence of Canada, p. 6.

shortly after reclassified as Assistant Under Secretary for External Affairs) who, in a memorandum to Pearson on the political appreciation of the prospects of Soviet aggression against North America, argued that:

Given the nature of that governing class, [the Soviet Union] it is highly improbable that they would embark on a course which might lead to war with the United States unless, in their opinion, (a) the balance of forces in the world was such that their chances of winning the war were much greater than the chances of defeat or a stalemate; or (b) even though their chances of victory were no more than even, the balance was constantly tipping more and more against them and they feared that unless they precipitated a preventive war, they would soon be at the mercy of the United States.<sup>84</sup>

From these reports, it would not be difficult to conclude that within the Department of External Affairs, there was little concern that the Soviet Union was prepared to launch an armed attack against a war-weary and vulnerable Western Europe. As both Wilgress and Reid's analyses make clear, even if the Soviets had wanted to advance westward, as late as 1948, the characteristics of the situation, that being the state of the Soviet economy, the political calculations of Stalin, and the logic that if the Soviets were really interested in Western Europe, they would want to take possession with as little destruction as possible, made it rather clear that the Soviets were, at least in the early post-war years, content to agitate the west, and make political as opposed to military gains.

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<sup>84</sup> Escott Reid, Assistant Under Secretary of State for External Affairs, "Political Appreciation of the Prospects of Soviet Aggression Against North America", DEA File DEA/50028-B-40 (February 13, 1947), Documents on Canadian External Relations, Vol. 13, 1947, (eds.) Norman Hillmar and Donald Page, pp. 343-344.



This was followed by an assessment of Soviet military capabilities by the Joint Intelligence Committee which examined the capabilities of the Soviet Union to launch an attack on North America. This assessment included the possible form of attack, the scale, and an estimate of the probable amount of warning. As well, the JIC report examined the political, economic, and geographic factors which would impact on Soviet decision-makers, as well as the state of Soviet weapons, manpower, the army, navy, air force and subversives. In the end, the JIC concluded that "It is highly improbable that the Soviet Government will embark on a war likely to involve the Canadian and United States governments during the next ten years."<sup>85</sup>

As an appendix to its strategic analysis of the Soviet threat, the JIC included an evaluation of the possibility of the Soviets launching a pre-emptive strike against North America. The basic assumption underlying this analysis of Soviet motivations was the committee's understanding of Soviet leadership. In the introduction of their assessment entitled "Political Estimate of the Possibility of the Soviet Union Precipitating War Against the United States and Canada", the JIC stated that

All we need assume is that the governing class of the Soviet Union is anxious to maintain the existing system in the areas now under Soviet political control and that this involves a desire to expand the defence area of that system. The desire of the members of the governing class to maintain the existing system is partly the result of their desire to retain their own personal power and privileges, partly the result of

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<sup>85</sup> Report by the Joint Intelligence Committee "Strategic Appreciation", DEA File, DEA/50028-B-40 (March 15, 1947), Documents on Canadian External Relations, Vol. 13, 1947, (eds.) Norman Hillmer and Donald Page, p. 346.

their belief that the Soviet system is better than the western system.<sup>86</sup>

While it is clear that the policy elites at External Affairs did not believe that the Soviet Union was likely to launch a full scale national war against the states of Western Europe, the above assumption by the JIC seems to be the first indication of what they believed constituted the Soviet threat.

As the political situation in Europe worsened in 1947 with the Czechoslovakian coup and the Norwegian crisis, Escott Reid set about to develop an understanding of the probability of conflict between the United States and the Soviet Union, as well as the implications for Canadian Foreign policy. In a draft memorandum distributed to various policy elites at External Affairs including Lester Pearson, Hume Wrong, Charles Ritchie, Dana Wilgress, Norman Robertson, and A. D. P. Heeney, Reid, in a section entitled "The Conditions Under Which Conflict Might Lead to War", argued that

Even assuming that the ultimate aim of the Soviet Union is world domination, the Soviet Union would want to inherit not a desert but a going concern. The Soviet leaders would therefore make great efforts to achieve their aims without recourse to a first class war. They would try to extend their defence area until ultimately it might cover the whole world, not as the result of a first class war but as the result of a gradual extension of power - an extension of political power over adjoining territory, an extension of economic power, an extension of power over the minds of men in the western world - until finally the balance of power between the United States and the Soviet Union was so weighted in favour of the Soviet Union that it would not be necessary to engage in a first-class war in order to bring the governments of the

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<sup>86</sup> Appendix "A" of the Report of the Joint Intelligence Committee, "Political Estimate of the Possibility of the Soviet Union Precipitating War Against the United States and Canada" DEA File DEA/50028-B-40 (March 1947), Documents on Canadian External Relations, Vol. 13, 1947, (eds.) Norman Hillmar and Donald Page, p. 353.

remaining Western powers, including the United States under Soviet influence and ultimately Soviet domination.<sup>87</sup>

All in all, both of Reid's memorandums, the one dated February 13, 1947 and the one dated August 30, 1947, offer an even-handed analysis of the Soviet-American conflict as Reid allocated blame evenly between the Soviets and the Americans for the current tensions.<sup>88</sup> While Reid's analysis generally mirrors the views of the major policy actors in External Affairs at the time, there were significant policy differences. Of note, Marcel Cadieux, who at the time had just returned from war-time postings in London and Paris, and argued that

Any United States extension of its defence area was warranted by the aggressive policies of the USSR, in view of the Soviet Union's military occupation, aggressive political and economic policies and ruthless intervention into the internal affairs of other countries. All references in the memorandum to United States expansionism ought therefore to be deleted.<sup>89</sup>

Similar criticism came from Pierre Dupuy, Canadian Ambassador to The Hague.

Dupuy argued that:

...the real battle is between Communism and the concepts of freedom. While it is true that the United States in defending the ideals of freedom also defends the free-enterprise system (call it by the horrible name of capitalism if you wish) ...the motivation is far higher and broader...and involves all those ideals and principles upon which our own

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<sup>87</sup> Escott Reid, Draft Memorandum by Head, Second Political Division, "The United States and the Soviet Union: A Study of the Possibility of War and some of the Implications for Canadian Policy" (August 30, 1947), Documents on Canadian External Relations, Vol. 13, 1947, (eds.) Norman Hillmer and Donald Page, pp. 371-372.

<sup>88</sup> Reid argued that "It is obvious that both the Soviet Union and the United States are expanding powers...each side desires to expand its defence area because each side believes that the other constitutes a menace to its way of life." See Don Page and Don Munton, "Canadian Images of the Cold War 1946-47" International Journal vol.32, no. 3 (Summer 1977), p. 586.

<sup>89</sup> Page and Munton, "Canadian Images of the Cold War 1946-47", p. 586.

nation is founded. The Reid memorandum thus involved a fundamental misconception.<sup>90</sup>

Feedback on Reid's analysis was not completely negative. One source of support for Reid's arguments came from the unlikely perspective of Lieutenant-General Maurice Pope of the Canadian military mission in Berlin. Pope responded positively, arguing that "it was very desirable in such a study to strike a fifty-fifty note...the Russian desire for a security area was as natural and as reasonable as the United States desire for bases as far flung as Greenland and Dakar", noting later that "it is a mistake to cast all the blame for the present situation on the Soviets. It seems to me fairly clear that over the last few years we have meddled in their affairs and needled them unnecessarily".<sup>91</sup> Support for Reid's analysis also came from the influential Hume Wrong, ambassador to Washington. While arguing that the Soviet Union and the United States should not be viewed in identical terms, he did express the point of view that:

...while the United States was clearly not determined to dominate the globe, it would be dishonest to ignore both the existence of influences in the United States which work towards some US domination of the lives of alien peoples, and also an attitude which might result in dangerously noisy and provocative methods in the task of stemming the flow of Soviet influence.<sup>92</sup>

While not a reply to the Reid memorandum, John Holmes, the Canadian Charge d' Affairs in Moscow, in April 1948, articulated his view of the United States as a potential destabilizing factor in the immediate post-war years by reporting that "It is frequently said here among westerners that the real danger of war in the near

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<sup>90</sup> Page and Munton, "Canadian Images of the Cold War 1946-47", p. 587.

<sup>91</sup> Page and Munton, "Canadian Images of the Cold War 1946-47", p. 587.

<sup>92</sup> Page and Munton, "Canadian Images of the Cold War 1946-47", p. 588.

future comes from the trigger happy US military who argue that the best way to prevent the next war is to drop an atom bomb on the Kremlin".<sup>93</sup>

While there was not quite unanimity among the foreign policy elite at External Affairs, it is safe to say that the major actors involved with policy formulation were in general agreement on the nature of the threat from the Soviet Union as political rather than military. As well, they were at least alert to the fact that the United States should be viewed as a possible destabilizing factor in the immediate post-war years. These two factors would eventually become the bedrock upon which the Canadian position towards the North Atlantic Alliance would be based.

Two brief digressions must be permitted here. Firstly, up to this point the discussion has focused primarily on the views of the policy community within the Department of External Affairs. It is important to keep in mind that while the views of these elites had a significant impact on the direction of Canadian foreign policy, other factors such as the political, economic, historical, and geographical realities of the Canadian state were fundamental in shaping post-war Canadian foreign policy. In fact, the argument can and has been made that these "realities" of the Canadian state influenced the images of the international system of the policy elites.<sup>94</sup> Secondly, at this time the Canadian government was still a strong advocate of the United Nations as the best hope for overcoming the emerging post-war divisions in Europe. This faith in the United Nations was reiterated by Secretary of State for External Affairs Louis St.

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<sup>93</sup> Escott Reid, Time of Fear and Hope: The Making of the North Atlantic Treaty, 1947-1949 (Toronto: McClelland and Stewart, 1977), p. 15.

<sup>94</sup> John W. Holmes, The Shaping of Peace: Canada and the Search of World Order 1943-1957 Vol. II (Toronto: University of Toronto Press, 1982), p. 29.

Laurent in July 1947, when he stated that "the United Nations could be the agency to counteract these divided forces [east and west] ...It is because it still thinks this can be done that the Canadian government feels that the growth and strengthening of the United Nations must be a real cornerstone of Canada's policy in foreign affairs."<sup>95</sup>

The point illustrated by these two digressions is that while it is possible to get lost in the personalities of the post-war foreign policy community (it was small and dominated by an elite few who exercised enormous influence over the direction of post-war foreign policy), it should be kept in mind that the policy process was complex and that these actors were reacting to, and developing policy in response to, the evolution of the post-war international system. Their goal was to develop an overall plan or set of objectives that Canadian political and diplomatic actors could pursue in order to advance Canadian interests in the post-war international order.

It was with a growing sense of fear among the states of Western Europe and the realization that substantive changes to the United Nations charter were out of the question<sup>96</sup> that the policy elite at external affairs began to actively

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<sup>95</sup> James Eayrs, In Defence of Canada: Growing Up Allied Vol. IV (Toronto: University of Toronto Press, 1980), p. 15.

<sup>96</sup> Even though the government continually pledged its support for the United Nations it recognized that substantial changes had to be made to the Charter, and in particular to the provisions regarding the use of the veto by the permanent members of the security council. In his memoirs, Pearson stated that "some of us had concluded that any attempt at wholesale revision of the UN Charter, and particularly of the veto power in the security council, would probably have served to worsen the international situation by driving the Soviet Union out of the UN and into complete isolation. We must work to strengthen the United Nations as our sole world organisation but at the same time build a more limited but firmer structure for collective security with those countries sharing our views." See Lester B. Pearson Mike: The Memoirs of the Rt. Hon. Lester B. Pearson Vol. II (eds.) John A. Munro and Alex I. Inglis, (Toronto: University of Toronto Press, 1973), pp. 39-40. See also Eayrs, In Defence of Canada, Vol. IV pp. 9-16 for an account of early UN problems with respect to the Soviet Union.

pursue the option of a regional collective security organisation. There was little if any significant difference between Canadian, American, and British views on the nature of the threat to Western European security.<sup>97</sup> There were however, significant differences of opinion at times over how to respond to the threat. The positions taken during the negotiating of the North Atlantic Treaty reflected each state's perception of the nature of the international system and their own immediate and medium range national interest. In the case of Canada, it became finding a way to preserve the United Nations while developing an institutionalized organisation that would at the same time firmly engage the United States in North Atlantic security issues and constrain the United States in its dealings with the Soviet Union, while it maintained its monopoly on nuclear weapons. Underlying both of these objective was an ongoing concern of post-war Canadian security policy, which was to ensure that Canada did not become isolated on the North American continent with the world's leading superpower with ten times the population and ten times the economic clout.

The negotiation of the Washington Treaty in 1948-49 could best be described as an arduous destiny. It was destiny in that during the early and very secret Washington Talks, Canada, the United States and the United Kingdom were all keenly aware of the fact that the political situation in Europe was deteriorating rapidly as the Soviets played the role of provocateur, and that

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<sup>97</sup> For interesting perspectives on both the British and American perceptions of the Soviet threat see Alex Danchev, "Taking the Pledge: Oliver Franks and the negotiation of the North Atlantic Treaty" Diplomatic History Vol. 15, no. 2 (Spring 1991), pp. 199-220; Lawrence S. Kaplan, "An Unequal Triad: The United States, Western Union, and NATO" in Olav Riste (ed.) Western Security, The Formative Years: European and Atlantic Defence New York: Columbia University Press, 1985; John Lewis Gaddis, "The United States and the Question of a Sphere of Influence in Europe, 1945-1949" in Olav Riste (ed.) Western Security, The Formative Years: European and Atlantic Defence, New York: Columbia University Press, 1985, and Martin H. Folly, "Breaking the Vicious Circle: Britain, the United States and the Genesis of the North Atlantic Treaty" in Diplomatic History, Vol. 12, (Winter 1988), pp. 59-77.

institutionalized flaws in the United Nations prevented them from mounting a serious challenge to the Soviets. Thus, there appeared among the North Atlantic states a window of policy convergence to calm fears in Western Europe and scare away the 'boogie-man'. In other words, a North Atlantic alliance was viewed as an international night-light. It was arduous, in that the British, Americans and Canadians possessed rather differing views on the institutional structure of this new organisation, and when the other Western European states were brought into the negotiations, the matrix of conflicting visions and demands grew exponentially.

The official Canadian position on the creation of a western alliance was articulated in a speech by Louis St. Laurent to the United Nations General Assembly in 1947 in which he stated that "if forced nations may seek greater safety in an association of democratic and peace-loving States willing to accept more specific international obligations in return for a greater measure of national security"<sup>98</sup> St. Laurent's speech was in part based on an earlier speech delivered by Escott Reid in August of 1947, in which he put forward the idea that the Charter of the United Nations did not preclude the creation of regional political arrangements so long as they were consistent with the UN, and that these regional organisations were entitled to take action in collective self-defence until the Security Council had acted. More importantly however, Reid went on to state that:

[The peoples of the western world] can create a regional security organisation to which any state willing to accept the obligations of membership could belong. In such an organisation there need be no veto right possessed by any great power. In such an

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<sup>98</sup> John Holmes, The Shaping of Peace, p. 104.



organisation each member state could accept a binding obligation to pool the whole of its economic and military resources with those of the other members if any power should be found to have committed aggression against any one of the members.<sup>99</sup>

While this speech was not a statement of government policy, it clearly indicates that the view among the upper echelons of the Department of External Affairs (according to Reid this speech was cleared by both Pearson and St. Laurent) favoured the creation of a formal international organisation that institutionalized the concepts of the indivisibility of security, the equality of all states, and formalized rules of behaviour for participation. Pearson would later add that:

There are times, no doubt, when the requirements for consultation and for cooperative decisions must be subordinated to the necessities of a grave emergency. But those occasions must be reduced to a minimum, before there can be any genuine collective action. That is one reason why I hope that the North Atlantic Regional System will soon be formed so that within its framework the decisions which affect all will be taken by all. Only then will the common responsibility for carrying out these decisions be clear and unequal.<sup>100</sup>

Pearson's statement clearly indicated that the government's position towards the structure and organisation of NATO would have to be one in which multilateral principles prevailed. Both Reid and Pearson, as political realists, understood the dynamics of the post-war situation well enough to know that for any regional security arrangement to be effective, it would have to do two things: firstly, it would have to institutionalize the role of the United States in the security of

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<sup>99</sup> Escott Reid, speech to the annual conference of the Canadian Institute of Public Affairs, August 13, 1947 and quoted in Escott Reid, *Time of Fear and Hope*, p. 31.

<sup>100</sup> Lester B. Pearson, *Mike: The Memoirs of the Rt. Hon. Lester B. Pearson* Vol. II (ed.) John A. Munro and Alex I. Inglis (Toronto: University of Toronto Press, 1973), p. 53.

Western Europe, and secondly, it would have to counter-balance the overwhelming decision-making influence of the US in European security

The British and the Americans were both looking for an alternative to the increasingly deadlocked United Nations, and both recognized that radical alteration of the UN charter would serve only to drive the Soviets out of the organisation. However, there was a high degree of reluctance on the part of the United States, as they saw it, to lock themselves into a security arrangement that might in the future limit their options when dealing with the Soviet Union. The British on the other hand needed little prodding and spent a great deal of time trying to court American interest.

The lack of decisiveness on the part of the Americans when it came to developing a policy on the post-war division of Europe can be blamed on a number of factors. Part of the blame, as Escott Reid points out, can be attributed to the fact that the United States was entering an election year in 1948 where it was widely expected that the current president Harry Truman would be defeated by the Republican challenger and that the Republicans would increase their strength in both the House of Representatives and the Senate.<sup>101</sup> Part of the blame must also be associated with a power struggle between Charles Bolen and George Kennan on one side and John Hickerson and Robert Lovett on the other. All were senior staffers in the Department of State, and were of differing opinion on the proper role of the United States in post-war European security.

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<sup>101</sup>Escott Reid, Time of Fear and Hope, p. 45.

As a result of this division, American policy towards European security was somewhat vague, and could best be described as designed to ensure that no single hostile power became strong enough to dominate the European continent.<sup>102</sup> How this was to be achieved was still under considerable doubt. Kennan was of the opinion that the division of Europe into spheres of influence was the best policy alternative for the United States.<sup>103</sup> Bolhen was not convinced that spheres of influence were necessarily the most appropriate policy for the US to follow, basing his objections on moral grounds more than on any strategic argument.<sup>104</sup> However, this difference of opinion did not prevent the two from agreeing that any formalized involvement by the United States in the security of Western Europe was not in the interests of the United States. The history of American isolationism combined with the concern that too haphazard a mix of military and economic aid could damage what was still an emerging post-war security fabric. Of particular concern was a fear resulting from Western Europe's military weakness, that in a formalized setting the United States would be left with a greater military commitment than it could meet.<sup>105</sup> As a result, both Kennan and Bolhen were active opponents of any regional security organisation.<sup>106</sup>

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<sup>102</sup> John Lewis Gaddis, "The United States and the Question of a Sphere of Influence in Europe, 1945-1949" in Olav Riste (ed.) Western Security, the Formative Years: European and Atlantic Defence, 1947-53 (New York: Columbia University Press, 1985), p. 61.

<sup>103</sup> Kennan conveyed his assessment of the European situation to Bolhen in 1945 in which he stated that "Why could we not make a decent and definite compromise with it - divide Europe frankly into spheres of influence - keep ourselves out of the Russian sphere and keep the Russians out of ours?" see John Lewis Gaddis "The United States and the Question of a Sphere of Influence in Europe", p. 60.

<sup>104</sup> Bolhen responded to Kennan by arguing that while he shared Kennan's assessment of Soviet intentions, but "foreign policy of that kind cannot be made in a democracy. Only totalitarian states can make and carry out such policies." see John Lewis Gaddis, "The United States and the Question of a Sphere of Influence in Europe", p. 60.

<sup>105</sup> Lawrence Kaplan, "An Unequal Triad", p. 110

<sup>106</sup> The impact and role of Kennan and Bolhen is further elaborated upon in Escott Reid, Time of Fear and Hope and James Eays, In Defence of Canada Vol. 4 : Growing Up Allied.

Hickerson, and to a lesser degree Lovett, who as Deputy Secretary of State, had to be brought on side later on as he was forced to choose between the conflicting opinions of the three most senior advisors, were actively pursuing a multilateral option. The main goal of Hickerson was to demonstrate that American involvement in the creation of a Western European security organisation would not be a commitment trap, but instead would be the best way for the United States to counter Soviet political threats by lightening the burden of the defence of Western European nations and permitting them to concentrate instead on economic reconstruction. In essence, Hickerson's goal was to de-link military and economic aid by demonstrating that the United States need not defend Western Europe, but instead should simply contribute to the shared cost of defence. In reality, the United States would be providing the bulk of the deterrence and, if necessary the defensive capabilities, but the key to Hickerson's plan was to highlight the political threat and downplay the military threat.<sup>107</sup>

The British, meanwhile, were in the unfortunate position of having to try to force the Americans into establishing a more activist position towards European security. Interestingly, during this time the Canadians were quite content to not push the situation. While they were committed to the idea of a new Western European security organisation, they were not prepared to push the idea. Part of the explanation for this rests with the fact that the Canadian government was still convinced that modification of the UN charter might be possible, and that the UN was still the best hope for solving Europe's post-war security problems. The British, however, were not so keen on the UN. The British government was well

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<sup>107</sup>See Martin H. Folly, "Breaking the Vicious Circle: Britain, the United States, and the Genesis of the North Atlantic Treaty" Diplomatic History Vol. 12 (Winter 1988), pp. 59-77.

aware of the fact that it could no longer play the same role in Europe that it did prior to the war. In particular, it quickly recognized that it could neither be the sole occupying force in Western Germany, nor could it provide an adequate deterrent to Soviet political pressures in Western Europe. In essence, the British recognized that they no longer possessed the capabilities necessary to provide a stabilizing presence with respect to both the Soviet Union and Germany, and to assist in Western European reconstruction, regardless of the amount of American economic aid.<sup>108</sup> This political reality was reflected in British ineffectiveness in the Security Council.

With respect to dealing with the Americans, the British, as the only strong advocates of an institutionalized security arrangement, found themselves having to endlessly convey to the Americans the reality of the threat to Western European security and the proper policy response. Unfortunately for the British, the Americans were unwilling to make any formal commitment to European security until it was demonstrated that the British themselves were taking steps towards meeting their own security. The British approach to breaking this deadlock was to put the Americans in the position of being unable to refuse European calls to join a collective security arrangement. The assumption on the part of the British was that if they requested American participation in a collective security arrangement for the North Atlantic, the Americans would be forced into the position of having to weigh the consequences of a refusal. These consequences revolved mainly around any injury to European morale, which might jeopardize the fragile post-war economic recovery.<sup>109</sup>

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<sup>108</sup> See Martin H. Folly, "Breaking the Vicious Circle", pp. 59-77.

<sup>109</sup> Martin H. Folly, "Breaking the Vicious Circle", p. 60.

However, the Americans did not bite and maintained their insistence that the Western Europeans demonstrate they were taking steps on their own to improve Western European security. The problem for the British was that the Western European states were wary of taking any steps towards regional integration, either militarily or economic, that the Soviets might perceive as being hostile. Thus the Western European states would not move toward closer integration without some assurances from the United States that it would guarantee their security.<sup>110</sup> The British, fearing that the opportunity for a North Atlantic security arrangement might be losing momentum, moved, along with the Belgians, to initiate negotiations for the creation of a Western European security union.

This movement on the part of the British fell short of American expectations, as this signaled only the intent of the British to sound out the possibility of negotiating a Western European security organisation involving the French, and the Benelux countries. The "vicious circle", as British Foreign Secretary Ernest Bevin termed it, may have gone on indefinitely if not for the events of March 1948. The shock of the Czechoslovak coup followed by word from the Norwegian government that the Soviet Union was pressuring it to agree to a non-aggression pact proved to be the catalyst necessary to break the deadlock. Soon afterwards the British, French, and the Benelux countries completed negotiations on the Brussels Treaty

With the Brussels Treaty signed, the the door opened for a breakthrough on the larger question of American participation in European security. The

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<sup>110</sup> Escott Reid, Time of Fear and Hope, p. 42.

British immediately suggested that the UK, the US and Canada meet to investigate possible roles for the United States and Canada in the security of Western Europe. These early discussions were highlighted by conflict over the collective defence arrangement and the nature of the American commitment. The Canadian delegation was particularly concerned that the American commitment should be more than just a pledge of assistance. They were looking for an institutionalized commitment that would formalize American participation in European security and would subsume North American security into the larger question of North Atlantic security. Hume Wrong, Canadian Ambassador to Washington, reported to Pearson that:

If the North Atlantic is bridged by a new defensive alliance, the problems of North American defence would become a small part of a larger plan...Furthermore, our own political difficulties about permitting US forces to conduct certain operations or maintain certain facilities within Canadian territory ought to be substantially diminished if such activities could be seen as a fraction of a larger scheme"<sup>111</sup>

The British were also looking for a formal tie across the Atlantic, but they were not keen on the idea of the Americans acceding to the Brussels Treaty as they felt this might inhibit further European integration.<sup>112</sup> Instead the British pushed for an organisation that would link the Brussels Treaty powers on one side with the United States and Canada on the other.<sup>113</sup> The Canadian position on this was generally negative as it was believed this would leave Canada isolated in North America. As John Holmes points out, the idea of the trans-Atlantic link should be more than a North American guarantee to Europe. Rather, a North Atlantic Alliance should link both North American and European

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<sup>111</sup> James Eayrs, In Defence of Canada, Vol. IV, p. 76.

<sup>112</sup> James Eayrs, In Defence of Canada, Vol. IV, p. 70.

<sup>113</sup> John Holmes, The Shaping of Peace, p. 107.

security in a mutual security framework. The idea here was to use the Atlantic link to balance the 1940 commitment for joint continental defence.<sup>114</sup> The Americans, on the other hand, were in favour of a unilateral guarantee of security to the states of Western Europe. The argument put forward by the Americans was premised on the recognition that such a decree could be "given quickly and effectively, and would not require any prior agreement or the negotiation of any political arrangement with the European powers." . In the end, however this argument encountered opposition from both the British and the Canadians that while the points in its favour might be valid, such a guarantee was too one-sided and was void of any sense of reciprocity.

At the end of the day, the parties agreed that the nature of the trans-Atlantic relationship would be characterized by a multilateral or reciprocal security guarantee, and that it would be a separate and more broadly-based North Atlantic security arrangement rather than an extension of the Brussels Treaty.<sup>115</sup> With the issue of institutional form settled, the next question to be answered was the nature of 'the pledge'. The pledge, or security guarantee, required more than 12 months of negotiations to work out, which should indicate the level of importance which was ascribed to it, and the distance that the parties were apart on the issue. The basic considerations at stake are rather straightforward: the firmer the pledge of assistance to a state or states facing possible aggression, the greater the effect the treaty would have on deterring the Soviets. However, the weaker the pledge, the less difficulty the American Administration would have in getting the treaty through the Senate. The European states involved in the post-exploratory multilateral negotiations

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<sup>114</sup> John Holmes, The Shaping of Peace, p. 106.

<sup>115</sup> James Eayrs, In Defence of Canada, Vol. IV. p. 75.



stressed the importance of the a strong pledge while the Americans argued for vague language similar to the Rio Treaty which the Senate had passed earlier that year. The Canadians supported the Europeans on this issue as they feared that a weak pledge would lead to the emergence of a two pillar organisation.<sup>116</sup> The primary concern for the Americans was that only Congress could declare war, and therefore the Senate would not ratify any treaty which automatically compelled the United States to go to war. The Americans, argued that the pledge while recognizing the indivisibility of security - that an attack against one was an attack against all - would not make the response of the member states automatic and would have to be determined by each member state individually. In the end, the US agreed to language that recognized the indivisibility of security, but made it clear that the response to an attack would be determined by each member.

To summarize, the road leading to the final agreement on the North Atlantic Treaty was rocky and steep. The three principal states involved in the early Washington Talks shared similar views on the nature of the Soviet threat to Western Europe, recognizing that it was political rather than military, and they equally agreed that the best response to this threat was to demonstrate to the Soviets that the West was united and committed to meeting Soviet aggression. However, they had sharply divergent views on how to meet the Soviet challenge. The common goal of Canadian, American, and British post-war policy was to avoid a return to conflict in Europe and to establish a stable and open international system where they could pursue trade and investment opportunities, especially in North America and Western Europe.

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<sup>116</sup> Escott Reid, Time of Fear and Hope, p. 143.

The policy elites at External Affairs were concerned that in the realm of security Canada might become isolated with the United States on the North American continent. Thus post-war foreign and defence policy was designed to integrate Canadian security into the larger question of North Atlantic and Western European security. For the British, the central question for post-War planners was how to facilitate the post-War reconstruction of Europe as the primary defence against Soviet expansionism. From the British perspective, the best way to achieve this was to formally tie American security to the security of Western Europe. This was achieved by linking the security of Western Europe with economic reconstruction. That is, the best defence against Soviet encroachment was the quick reconstruction of western economies, backed by a formal security commitment by the United States. The Americans, while primarily concerned with Soviet aggression in Western Europe, were also wary of becoming entangled in European security questions. The American administration was undoubtedly committed to the reconstruction and integration of Western Europe as the primary defence against Soviet advancement, but it was wary of becoming the principal defender of Western Europe. The Americans wanted some indication that the Europeans were prepared to act in their own defence, rather than relying on the power of the United States to act as their deterrent. In the end, the negotiation of the North Atlantic Alliance served to meet the political and security agendas of the three principal states involved at the time.

The fear of Soviet political encroachment in Western Europe provided the catalyst necessary for policy convergence in the area of North Atlantic security to occur. This policy convergence emerged out of a mutual recognition that the

security of the North Atlantic, including the security of North America, was linked to an economically and politically stable Western Europe. This facilitated the negotiation of what has been termed a transatlantic bargain which was formalized in the Washington Treaty of 1949. This transatlantic bargain reflected a clear set of foreign policy objectives on the part of the states of Western Europe and the North Atlantic, but in particular of Canada, the United States and the United Kingdom. Canadian participation in the transatlantic agreement reflected the policy elite's desire to achieve two fundamental objectives. The first goal was to secure North Atlantic security in a manner that would deter potential Soviet aggression in Western Europe. The challenge was to do so without isolating them. In order to achieve this, the integrity of the United Nations would have to be maintained which meant that there could be no fundamental changes to the Charter, with particular respect to the veto, which might drive the Soviets out altogether. Secondly, the transatlantic agreement would act as a counterweight to growing American influence in the economic and security life of Canada. Early post-war trade agreements signed between the King government and the Roosevelt administration, as well as the 1940 agreement on continental defence, necessitated a balancing of American influence with a broadening of security and trade options. For the Canadian government, the Washington Treaty was more than just a security arrangement: it was a recognition of the increasing influence of the United States in the daily lives of Canadians and was the first attempt by Canadians to protect Canadian interests in a multilateral arrangement.

## EUROPEAN SECURITY REVISITED AND THE FUTURE OF NATO

In the early days of the post-Cold War euphoria, a somewhat naive assumption existed that because the single greatest threat to western security was now greatly diminished, perhaps even totally removed, the monument constructed to the security of Western Europe should be dismantled. Now, almost four years into the "great victory", it could be argued that the new security concerns which have emerged may prove to be as challenging as the ones they replaced. The German unification question, instability in the Russian Federation, American military retrenchment, concerns about the rise of nationalism and instability in Eastern and Central Europe as those states make the difficult transition from command to market driven economies are all emerging as serious challenges to North Atlantic security. Understanding these new threats and the challenges they pose to existing security structures is essential if one is to fully understand the larger question of NATO's continued existence as an institution.

Put quite simply, the German question revolves around fears that a unified Germany might, in the pursuit of its own economic interests, "go off the rails for a third time this century."<sup>117</sup> This is an issue that no one really wants to discuss but seems to have generated considerable interest among the states of Western Europe and the North Atlantic.<sup>118</sup> The question of a German economic powerhouse has caused a number of European states to alter their own policies

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<sup>117</sup> Owen Harris, "The Collapse of 'The West'" in Foreign Affairs, Vol. 72, no. 4 (September 1993), p. 50.

<sup>118</sup> Many scholars seem to tacitly acknowledge that when a unified Germany has brought its eastern half up to speed, it will be an ever greater economic powerhouse, not only in the EU but in the global economy as well.

toward Germany and the future of European defence and security integration. As Alex Moens points out, France in particular has attempted to shift weight from its pursuit of a nationalistic oriented security and defence policy to an EU identity<sup>119</sup>. Thus, it appears that fears of a resurgent German economic powerhouse (a Germany, one might point out, that no longer requires the American nuclear guarantee for its security) has raised concerns about the ability of existing institutions to deal effectively with the situation.

Perhaps an even greater threat to stability in the North Atlantic region is the problem of economic and political instability in the Russian Federation and the successor states of the former Soviet Union. One particularly important question is that of Russia's relations with the Ukraine as they attempt to deal with issues such as the Black Sea fleet and the return of nuclear weapons left over from the former Soviet Union. The major questions that have arisen are multifaceted and overlapping, but tend to fall into two broad areas: How to deal with the faltering Russian economy so as to protect the emerging democracy, and how to stabilize relations between Russia and the successor states through the extension of security guarantees without isolating Russia.

Of major concern to many in the North Atlantic area is the possibility that the Americans, faced with what appears to be a prolonged structural economic downturn and critical domestic social problems, may decide that their "job" is finished in Europe and proceed to pack up and go home. This scenario, while not an immediate possibility, holds some validity when viewed in the context that

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<sup>119</sup> Alexander Moens, "A New Security Strategy for Europe" in Christopher J. Maule and Fen Osler Hampson (eds.) Canada Among Nations, 1994-95, (Ottawa: Carleton University Press, forthcoming), p. 4.

the American public might conclude that since the "enemy" has been defeated, there is no reason that the United States should continue to spend billions of dollars to protect Europe from a global threat that no longer exists when there are so many problems to solve domestically. This rings true when one recalls the phrase "it's the economy stupid" that summed up Clinton's victory in 1992. While there are compelling reasons for the Americans to remain connected to European security, it should not be forgotten that there are also compelling reasons for them to leave as well.

The problems that have emerged in Eastern Europe are complex and multifaceted, and they stem from one singular event: the collapse of Communism and the Eastern European regional system. The problems that Eastern and Central European states now face fall into two main categories: the transformation from command to market-based economies, and the resultant rise in nationalism associated with such turbulent transitions. Eastern and Central Europe's move to market-based economies will also prove to be a challenge to the western economies as they themselves struggle with structural unemployment and mounting deficits and debts which narrow the range of policy options open to decision-makers. The paradox is that without substantial financial assistance, the probability of political instability will increase. The most probable outlet for this instability will be in the form of rising nationalism. This political instability, when combined with the strategic void created by the collapse of the Soviet empire, will intensify the level of conflict in the area and could unleash a wave of nationalist violence that has, over the past 40, years been kept under wraps.<sup>120</sup>

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<sup>120</sup> Pierre Lellouche, "France in Search of Security", *Foreign Affairs*, Vol. 72, no. 2 (Spring 1993), p. 123.

When combined, these four factors fuel an "almost desperate search for security in the region, which itself reinforces the trends toward geopolitical competition, proliferation and instability, as the expectation builds that states may soon pursue unilateral attempts to gain real or perceived security"<sup>121</sup> Should states in the region begin to seek unilateral security, instability in the region will rise as their policy options become more myopic and they resort to pursuing their own narrow objectives at the expense of the larger community. As tensions rise, local conflicts could escalate into regional wars which would threaten to draw in one or more major powers who might see their own interests threatened.<sup>122</sup>

Faced with these new challenges to North Atlantic and European security, the question now becomes how NATO responds. Perhaps the most impressive argument that put forward is that a new transatlantic bargain needs to be negotiated between North America and Europe. It is not unreasonable to suggest that NATO still has a role to play in North Atlantic and European security. NATO possesses the leadership structure, functioning logistics and effective arsenal necessary to meet the emerging security challenges.<sup>123</sup> While the structure of the institution would change little, the very nature of the institution would undergo a substantial refit. This new transatlantic bargain between Canada, the United States and Europe would be based on a new political relationship, a different set of political and military understandings, as well as a new relationship with the east. This new relationship would

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<sup>121</sup> Ronald D. Asmus, Richard L. Kugler and F. Stephen Larrabee, "Building a New NATO", *Foreign Affairs*, Vol. 72, no. 4, (Fall 1993), p. 29.

<sup>122</sup> Asmus, Kugler, and Larrabee, "Building a New NATO", p. 30.

<sup>123</sup> Asmus, Kugler, and Larrabee, "Building a New NATO", p. 31.

“ simultaneously expand the alliance’s strategic horizon geographically and find new ways to share responsibilities and burdens.”<sup>124</sup>

This argument for a new transatlantic “ bargain” is very appealing when one recognizes that the primary purpose of NATO is no longer to act as a military deterrent towards a single, identified enemy, but rather to be a political force that has to deal with a number of potential political threats. NATO as an alliance must redefine itself to project democracy, stability and crisis management in a broader strategic sense.<sup>125</sup> However, the essential question that still needs to be answered is how a new transatlantic agreement will address the security questions outlined above. This new agreement must encompass many of the changes which have occurred over the past half decade. In other words, the new Atlantic bargain must encompass and build upon evolving security structures in Europe.

This new transatlantic agreement will establish a new role for NATO in European security that will allow it to function alongside such existing institutions as the WEU and the EU. This does not mean that the evolution of a new NATO will be painless. Any transition is bound to encounter difficult periods, and NATO’s would not be any different. Potential trouble spots during the transition include the complexities surrounding German unification, European integration and the development of the European Security and Defence Initiative (ESDI) and the question of Russian and East European economic and political security.

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<sup>124</sup> Asmus, Kugler, and Larrabee, “Building a New NATO”. p. 31.

<sup>125</sup> Asmus, Kugler, and Larrabee, “Building a New NATO”, p. 32.



The French government was at first vigourously opposed to German unification and was equally opposed to German membership in NATO. At the same time, the French were pushing for a quicker pace towards monetary union in the EC. In an attempt to extract a quid pro quo, the French government agreed to accelerate the process of German unification in return for faster progress towards monetary union. This agreement on the German question and monetary union led to the emergence of ESDI. The German position on monetary union was that political union must accompany monetary union so that Bonn was not simply diluting control over the mark to other countries, but to a more federalist EC. As a result, political union and a common foreign and security policy were placed on the table alongside monetary union.<sup>126</sup>

NATO's response to the German question and, subsequently to ESDI was to avoid confrontation or "turf battles" with the WEU/EU. Although the issue of ESDI struck right at the heart of NATO, Alliance members agreed that "it was for the European Allies concerned to decide the arrangements needed for the expression of a common foreign and security policy and defence role; NATO welcomed the ESDI and was confident that European efforts in this regard would mutually reinforce those of an evolving alliance..."<sup>127</sup> In the final analysis NATO members recognized that the changes which were occurring in the East had a direct impact on the very nature of the European security question. As well, alliance members recognized that changes would have to be made that strengthened European security policy and maintained a legitimate role for NATO.

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<sup>126</sup> See Alexander Moens, "Between Complementarity and Transparency", p. 35.

<sup>127</sup> James K. Barttleman, "Unfinished Revolution: New Political Directions at NATO" Canadian Defence Quarterly, Vol. 2, no. 4, 1992, p. 9.

A second challenge to NATO in Europe was the question of Russian and East European economic and political stability and the rise of nationalism associated with their transition to market-based economies. The major problem here was how to prevent the newly emerging democracies in Russia and Eastern Europe from sliding backwards, both economically and politically. The response of the NATO allies was the creation of the North Atlantic Cooperation Council (NACC) and the Partnership for Peace (PfP) initiative. The main goal of the NACC, as described by former NATO Secretary-General, the late Manfred Wörner, is to allow NATO to " extend practical support to NACC partners as they strive to restructure their armed forces and bring them under democratic control. The long-term objective is to create a wider Euro-Atlantic security framework within which our former adversaries can safely pursue their democratic destinies."<sup>128</sup>

The PfP initiative emerged out of the January 1994 Brussels summit in response to the rising expectations of some former Warsaw Treaty Organisation members, and the political instability that the Russian government had experienced throughout 1993. By January of 1994, former WTO members such as Poland, Hungary, the Czech Republic and Slovakia had expected to be offered membership in NATO in recognition of the advancement they had made towards institutionalizing economic and market reforms, and as a measure of security, in a military sense towards Russia, but also in a political sense against backsliding towards totalitarianism. While being unable to extend full membership to all former WTO members, out of concern of isolating Russia, PfP

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<sup>128</sup> Manfred Wörner, "NATO: A Changing Alliance for a Changing World", Speech by the Secretary General of NATO, at the Foreign Policy Association, New York, 7 October 1993.

was seen as a stepping stone towards the eventual integration of Russia and the Eastern European states into a pan European security community.

By the middle of 1994 it began to appear that the European security question had started to settle down after five years of turmoil and instability. German unification had been completed to the satisfaction of those most directly affected, primarily the French and the Americans. ESDI emerged on the scene to address concerns over German unification and greater autonomy in European security matters. The NACC and PfP initiatives seem to have opened the doors to increased participation in European security matters by all members of the former WTO and Soviet Union. As well, it seems to have provided the necessary security assurances to the new market economies to allow them to continue with market reforms without being distracted by security concerns.

The transatlantic agreement which led to the creation of the North Atlantic Alliance was premised on a mutual recognition among the states of the North Atlantic of a single identifiable threat, the nature of that threat, and agreement on how best to deal with that threat. In the early part of the post-Cold War period, a growing recognition once again exists among the states of Western Europe and North America that there are new threats to the security of the North Atlantic area. However, in this instance there is no longer a single identifiable enemy on whom the blame can be pinned. The reality of the post-Cold War international system is that there are now several threats to security in the region, and they require new and innovative approaches to solving them. As a starting point it has been argued that a new transatlantic bargain must be struck. The new agreement must not only recognize these new threats but develop effective methods to deal with them. From the Canadian perspective, the policy elite must

develop a set of coherent foreign policy objectives that will enable the development of effective participation in the negotiation of this new agreement.

## THE RESPONSE: WHITHER CANADA'S NATO ROLE?

A considerable body of literature has developed in the past 10 years which details many of the challenges the Canadian government now faces as it prepares to move Canadian foreign and defence policy forward into the 21st Century.<sup>129</sup> While most of this literature has made a significant contribution to the advancement of Canadian knowledge surrounding the question of NATO's relevance to Canada, by and large it has not addressed the fundamental question of the Canadian response to the changes in Europe over the past half decade. As well, this body of work has also identified the major issues of post-Cold War Canadian foreign policy. However, there has been no clear consensus on the formulation of a proper policy response.

A possible explanation as to why academics have not focused on policy response may lie in the fact that there is little policy to reflect on or analyze. What little policy has emerged regarding European security over the past five years has generally been less than coherent in its long term outlook and has

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<sup>129</sup> Of particular note see Robert Wolfe, "Atlanticism Without the Wall: Transatlantic Cooperation and the Transformation of Europe" Centre for International Relations Occasional Paper no. 38, Kingston: Queen's University, Centre for International Relations, November 1990; David G. Haglund, "Being There: North America and the 'Variable Geometry' of European Security", Centre for International Relations Occasional Paper no. 39, Kingston: Queen's University Centre for International Relations, December 1990; Alexander Moens, "A New Security Strategy for Europe" in Christopher J. Maule and Fen Osler Hampson (eds.) Canada Among Nations 1994-95, Ottawa: Carleton University Press, forthcoming; Tom Keating and Larry Pratt, Canada, NATO and the Bomb: The Western Alliance in Crisis, Edmonton: Hurtig Publishers, 1988; Joseph T. Jockel and Joel J. Sokolsky, Canada and Collective Security: Odd Man Out, New York: Praeger Press, 1986; and Allen G. Sens, "Canadian Defence Policy After the Cold War: Old Dimensions and New Realities" Canadian Foreign Policy Vol. 1, no. 3, (Fall 1993), pp. 7-28.

been characterized by waffling over the short term. For example, in September 1991, Defence Minister Marcel Masse announced that the government would close its bases at Lahr and Baden-Soellingen in 1994 and 1995 respectively, and that Canadian forces stationed in Germany would be brought home with the exception of a 1,100 member task force. In the February 1992, budget the timetable for the closure of Baden-Soellingen and Lahr was accelerated by one year and the decision was made to return the 1,100 member task force to Canada. Combined with the new Liberal government's decision to scrap the EH-101 shipborne helicopter, these policy decisions indicate that Canadian foreign policy with respect to Europe is being directed by forces other than security interests.

In the previous section it was mentioned that one of the most interesting proposals to keep NATO functioning as a legitimate organisation was to re-negotiate what was termed the transatlantic bargain which cemented the creation of NATO 45 years ago. For Canadian decision-makers and students of foreign and defence policy, the question to consider carefully is what role Canadians will play in the negotiation of this new transatlantic agreement. The role that Canadians assume in this process will be reflective of the broader role they will play in post-Cold War European security. In the preceding section the major challenges to European security and the North Atlantic Alliance's response were identified. The following section will attempt to link those security challenges to Canadian security, as well as identify the government's policy response.

Unlike post-war foreign policy which was centred around a set of objectives which reflected Canadian security interests, post-Cold War foreign

policy does not seem to clearly identify relevant Canadian security interests, and as a result no clear set of objectives has yet been established. The lack of coherent foreign policy objectives has led to ad hoc or incremental decision making which can drive foreign policy activity away from a coherent match with foreign policy interests. The breakdown in Canadian foreign policy can be attributed to a series of events occurring in the late 1980s and the early 1990s. These include the continuing inability of the governing Conservatives to wrestle the deficit to a manageable level, the failure of the CSCE to emerge as the principal political institution to manage European security, and by a lingering preoccupation by the Conservatives with constitutional problems at home.

When the Conservative government of Brian Mulroney was first elected in 1984, one of the major policy planks of the party's platform was a promise to bring government spending under control. While some progress was made in lowering the government's annual deficit, by the late 1980s and early 1990s it had become apparent that the government was waging a losing battle. The deficit for a number of years had hovered around the CDN\$ 30 billion mark, and spiked to approximately CND\$ 42 billion in 1993. As early as 1990, deficit reduction had become an increasingly significant factor in the development of post-Cold War foreign and defence policy. In a prepared address to the Standing Committee on National Defence and Veterans Affairs, Defence Minister Kim Campbell stated that "the Department's planned spending for the period 1989/90 to 1997/98 had been reduced by a total of nearly \$14 billion."<sup>130</sup> Budget cuts of this magnitude could not be absorbed without a significant impact on the nature and direction of policy.

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<sup>130</sup> Hon. Kim Campbell, "Speaking Notes for the Hon. Kim Campbell to the Standing Committee on National Defence and Veteran's Affairs" Ottawa, May, 5, 1993.

At the same time as these cuts were being absorbed, the Department was struggling to define Canadian post-Cold War defence policy. The last major review of defence policy occurred between the years 1985 to 1987 and culminated in the release of the long awaited White Paper: *Challenge and Commitment: A Defence Policy for Canada*. At the time of its release the Conservative government still considered defence to be a top priority. This is reflected by the fact that the government was still thinking of real increases in the level of defence spending. The White Paper stated that " ...spending will be increased in a determined fashion to make the defence effort more responsive to the challenges of the 1990s and beyond. The decades of neglect can be overcome, but it will require a long-term solution: a steady, predictable and honest funding program based on coherent and consistent political leadership." <sup>131</sup>

With the release of the White Paper, DND set about to establish a program of long-term spending priorities based on the funding increases set out in the paper. However, within two years the government's commitment to long-term stable funding was a thing of the past. It had become apparent that financial considerations were consuming a great deal of the government's attention. The end of the Cold War provided an excellent opportunity for the government to reap significant budgetary "savings" from DND. The first indication that DND policy priorities were slowly being determined by the Department of Finance came with the cancellation of the nuclear-powered

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<sup>131</sup>The White Paper committed the government to increase defence spending at a rate of 2% after inflation. See, Canada, Department of National Defence, *Challenge and Commitment: A Defence Policy for Canada* (Ottawa: Queen's Printer, 1987), p. 47 & 67.

submarine program. While it may be argued that the program was ill-conceived to begin with, the fact that the announcement was made in the Spring 1990 budget by the Minister of Finance, rather than by the Minister of National Defence, seemed to indicate that the decision to cancel the project was based more on financial than strategic considerations.

The closing of the Canadian bases at Lahr and Baden-Soellingen offer greater insights into the development of post-Cold War Canadian security policy, and the role that financial considerations played in the overall development of foreign policy with respect to Europe. As noted above, the government in 1991 initially intended to close Lahr and Badden-Soellingen in 1994 and 1995 while leaving 1,100 troops and two CF-18 squadrons stationed in Europe at an unidentified allied base. Within five months the government announced in the February 1992 budget that the closure of the bases would be accelerated by one year and that both the troops and the air squadrons would be brought home. The government estimated that the closing of the bases would save taxpayers CDN\$ 900 million a year and help cut CDN\$ 2 billion from the defence budget over four years.<sup>132</sup>

It was only after the announcement of the accelerated base closings and complete withdrawal of Canadian forces from Europe that the government undertook to review Canadian defence policy. In 1992, when the government announced its new defence policy, it attempted to justify earlier policy decisions in the context of the "new world order". The new defence policy reaffirmed the

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<sup>132</sup> Andrew Cohen, "Security and NATO" in Christopher J. Maule and Fen Osler Hampson (eds.) Canada Among Nations 1993-94: Global Jeopardy (Ottawa: Carleton University Press, 1993), p. 254.



Canadian commitment to collective defence through membership in NATO and to making worthwhile contributions to the Alliance consistent with Canadian interests and capabilities. However, the new defence policy signaled a shift away from a military contribution when it stated: " Our willingness to make forces available to NATO in the event of a crisis or war, underscores our intention to remain closely engaged in European security issues." <sup>133</sup>

The government in the 1992 Defence Policy Statement undertook to de-emphasize its military contribution to NATO in order to ensure that its recent budgetary measures were reflective of its new policy. Furthermore, attempts by the government to explain its recent policy decisions relied on two main arguments: the deficit and the changing security situation in Europe. When discussing the base closures, Defence Minister Marcel Masse referred to both financial considerations and the changes in Eastern Europe as justifications for the changes made in Canadian defence policy over the past year. In November of 1992, Masse stated " The continuing improvement in east-west relations and continuing pressure on our budget have made it necessary to withdraw our troops stationed in Europe." <sup>134</sup> Later that same year in the House of Commons Masse, in an explanation of the new Canadian defence policy stated that: " Changes in the international situation, budgetary constraints, assistance and support at home - this, then, is the context on which our new defence policy rests." <sup>135</sup> Finally earlier that year, once again in the House of Commons, Masse stated that : " We had to formulate a policy that would take into account the new

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<sup>133</sup> Canada, Department of National Defence, Canadian Defence Policy, 1992 (Ottawa: Queen's Printers, 1992), p. 3.

<sup>134</sup> Marcel Masse, Minister of National Defence, " Speaking Notes to the Financial Post Conference" Ottawa, November 12, 1992.

<sup>135</sup> See remarks by Marcel Masse, Minister of National Defence, Canada, House of Commons Debates, Vol. 12, December 8, 1992, p. 14809.

world order; that would be affordable; that would be acceptable to the people of Canada and satisfactory from the military standpoint as well; and lastly, that would take our commitments to NATO and NORAD into consideration.”<sup>136</sup> What is important to note here is that these statements all came after the government had announced the military bases in Europe were going to be closed. It appears as though the 1992 Defence Policy was simply a belated attempt to justify its budgetary moves and use the changes in Eastern Europe as a justification. The timing of all this leaves the strong impression that the government, at least with respect to its military commitment to NATO, was attempting to define policy not in response to global changes but rather to justify budgetary considerations.

As well as there being some question as to the coherence of Ottawa's military policy, there also appeared to be some general confusion surrounding the government's foreign policy towards the changes in Europe, particularly with respect to the Canadian role in the newly emerging security architectures. Of particular importance is the government's apparent misreading of the role of the CSCE. In his May 1990 speech at Humber College which outlined Canadian policy towards the new Europe, Secretary of State for External Affairs Joe Clark gave a perfunctory nod to NATO's role in a new Europe when he stated that “ It is only natural in these circumstances for NATO to assume a more political role, a role which would reflect both the new Europe and a declining military mission.”<sup>137</sup> However, much of that speech dealt with the role that the Canadian government envisaged for the CSCE. Clark outlined his view of the role the

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<sup>136</sup> See remarks by Marcel Masse, Minister of National Defence, Canada, House of Commons *Debates*, Vol. 8, April, 28, 1992, p. 9837.

<sup>137</sup> Rt. Hon. Joe Clark, “Notes for a speech by the Secretary of State for External Affairs” Toronto, May 26, 1990.

CSCE could play in the new Europe when he stated that " The role of the CSCE must now be expanded so that it becomes the drawing board for the new European architecture...And as the nature of European security expands beyond military balances to political stability and economic prosperity, there is a central role for the CSCE." <sup>138</sup>

As late as 1992, the government was still of the belief that the CSCE might have an important role to play in the new Europe and continued to push for its improvement.<sup>139</sup> However, it appears as though the government may have made a fundamental strategic error by appearing to place all its European eggs in one basket. Clark, shortly after his Humber College speech, stated in the House of Commons that " a new direction for NATO, an expanded role for the CSCE, and an intensified relationship with Europe - those are to be the institutional pillars of our new policy towards Europe." <sup>140</sup> As would be demonstrated later that year, a new direction for NATO, in the Canadian context, would mean a greater political role and a lesser military role. However, the government appeared not to have a fall back position should the CSCE fail to emerge as an effective pan-European institution. When the CSCE proved unable to deal with the Yugoslavian crisis, threads began to unravel in the new Canadian policy towards Europe.

The major problem for the government at this time was that it failed to recognize that the CSCE was unlikely to evolve into the pan-European institution that it had hoped, and by this time it was too late to reverse many of its previous

<sup>138</sup> Rt. Hon. Joe Clark, "Notes for a speech by the Secretary of State for External Affairs" Toronto, May 26, 1990.

<sup>139</sup> See, "Foreign Policy Themes and Priorities: 1991-92 Update" in (ed.) J. L. Granatstein, Readings in Canadian Foreign Policy, p. 92.

<sup>140</sup> See Canada, House of Commons Debates, Vol. 9, May 31, 1990, p. 12096.

policy decisions, most notably the decision to close its military bases and withdraw from the Continent. The net effect was that by now, any Canadian input into NATO would have been negligible, and with the CSCE continuing to atrophy, the Canadian government was left without any substantive input into the direction of the new European security architecture. It is important to note here what is not mentioned in either Clark's Humber College speech or the 1992 Defence Policy: the emergence of European-based security architectures and possible role for Canada. The only European institution to receive mention, outside of the CSCE, is the EU and even then the government made only vague references to taking steps towards strengthening the Canadian relationship in light of the importance of trade considerations. The government appears to have completely ignored the re-emergence of the WEU as a security institution and the impact the WEU/EU would have on the development of a two pillar NATO. This is, most probably, a direct result of the belief in External Affairs that the CSCE would emerge as the singular pan-European conflict management institution. When that failed to materialize the government was left without a coherent set of post-Cold War foreign policy objectives.

The inability of External Affairs to develop a set of policy objectives is most likely a direct result of its misreading of the evolution of European security matters in the late 1980s and early 1990s. This was compounded by the government's desire to reduce its military commitment to Europe as part of its overall deficit reduction program. The question now becomes what will or can the government do to correct the situation. It appears unlikely that there will be a military resurgence of NATO any time in the near future. The 1990s will most likely see the negotiation of a new transatlantic agreement, perhaps not with a new formal agreement to show for it, but most likely a radically transformed

NATO, and the government appears ill-prepared to deal with the eventuality. In order for the Canadian government to participate in a meaningful manner and to achieve its foreign policy objectives, it must sit down and establish what Canadian security interests, if any, exist a transformed Europe, and how a transformed transatlantic security arrangement might accommodate Canadian security interests.

The first step, which was achieved at the Brussels Summit of 1994, transformed NATO from a collective defence alliance into an alliance committed to the projection of democracy, stability and crisis management in a broader strategic sense.<sup>141</sup> The Brussels Summit achieved this by developing proposals that put the 1993 London Declaration into action. This transformation will no doubt reduce NATO's dependence on American military might. While there is a general consensus among Canadian and European members of the Alliance that the United States should remain engaged in Europe, there is both a demand on the part of the United States and a desire on the part of Europeans for a more balanced and equitable relationship with Washington.

Such a development would no doubt be in the best interests of the Alliance over the long run but, could prove to be a major challenge to Canadian interests as it would lead inevitably to the development of a two-pillar alliance. The Canadian response to the ESDI and the revitalization of the WEU was weak. What little response there was generally tended to be supportive of these measures reflecting a North American continentalist perspective at the political

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<sup>141</sup> NATO, "Declaration of the Heads of State and Governments Participating in the Meeting of the North Atlantic Council Held at NATO Headquarters, Brussels", Press Communiqué M-1(94)3, January 11, 1994.

level of Foreign Affairs and National Defence. These departments argued that the revitalization of the WEU and the emergence of greater demands by the EU in security matters, combined with gradual American disengagement and the trade realities of NAFTA, make Canada's attempt to stay involved in European security matters look misguided.<sup>142</sup> As a result, continentalists argue that Canadian foreign policy should concentrate on issues germane to hemispheric security in general and North American security in particular.

A continentalist policy response such as the one articulated by the Canadian government does have a certain appeal, especially when considered in the context of the realized budget savings from DND in the era of CND\$ 40 billion deficits. As well, such a policy certainly reflects the growing importance of North American trade to Canadian economic well being. However, opponents such as Alex Moens and Allen Sens have argued that such a policy is premised on a naive notion that quitting European security will either increase our continental leverage or enhance our diplomatic and trade status with our key allies.<sup>143</sup> The end result of such a policy option would be to invite "obscurity behind the mountain of US foreign policy."<sup>144</sup>

As a policy alternative, Allen Sens has put forward four reasons why Canadian foreign policy interests lie in remaining an active participant in Euro-Atlantic affairs:

<sup>142</sup> Alexander Moens, "A New Security Strategy for Europe", p. 17.

<sup>143</sup> Alexander Moens, "A New Security Strategy for Europe", p. 19.

<sup>144</sup> Allen G. Sens, "Canadian Defence Policy After the Cold War: Old Dimensions and New Realities" Canadian Foreign Policy, Vol. 1, no. 3 (Fall 1993), p. 17.

- 1) To contribute to the prevention of large-scale disruptions in international political cooperation and the international economy.
- 2) To contribute to the effectiveness of international institutions and regimes suited to the maintenance of international peace and security and international economic cooperation.
- 3) To maintain an international voice for Canada.
- 4) To maintain counterweights against the political, economic and defence predominance of the United States<sup>145</sup>

These four points mirror very closely the reasons advocated by the Canadian government for a multilateral approach to international security in the early years after World War II. Thus the question becomes, are the reasons Sens has articulated actually valid Canadian security concerns in the post-Cold War years?

While contributing to the prevention of wide-scale disruptions in international political cooperation and the maintenance of a world voice for Canada are “motherhood” issues in the realm of foreign policy, it is necessary to question whether there is a legitimate role for Canada to play in contributing to the effectiveness of certain international institutions suited to the maintenance of international peace and security. Is it necessarily a bad thing, or would one expect the Canadian government to have a policy towards European peace and security given the rise of regionalism in global politics and in the international politics of North America in particular? As well, does the counterweight notion need to be rethought in the wake of the end of the Cold War and the spread of market-based interdependence globally, and particularly for Canada regionally?

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<sup>145</sup> Allen Sens, “Canadian Defence Policy After the Cold War”, pp. 16-17.

With respect to the counterweight notion, while it might have been necessary when the United States was learning the role of a hegemonic power trying to guide world politics without blowing up the world, one wonders whether the US, after 50 years, has managed to catch on to the intricacies of hegemonic leadership? (Admittedly, the current Republican leadership may lead to questions about this assumption.) Secondly, even if the assumption is put forward that there may remain a latent threat from American leadership instability or even outright threats of annexation or absorption, most Canadians do not seem sufficiently bothered to reject the CAFTA/NAFTA embrace. And thirdly, would anyone believe that the declining middle power which Canada has become actually possesses influence in international security organisations with a defence establishment heading towards Mexican constabulary status<sup>146</sup>, and an economy on the verge of IMF receivership? These questions seriously weaken Sens' interpretation of post-Cold War Canadian security interests.

What is left then is a serious debate concerning the existence of Canadian foreign policy interests in the post-Cold War era and the proper policy response on the part of the Canadian government. The end of the Cold War and the re-evaluation of Canadian security interests involves more than just the question of European security, although admittedly European security questions loom large in terms of the impact they might have on Canadian security. As such, the question seems to have become, whether the Canadian government should undertake a post-Cold War security policy that is more global in its outlook, meaning continuing to seek influence in European security institutions such as NATO and, by association, the NACC and the PfP, the CSCE, and to a

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<sup>146</sup> I must attribute this particular metaphor to Douglas A. Ross, which emerged out of a discussion on the decline of Canada's international status.



lesser extent the WEU? Or should Canadian security policy in the post-Cold War era simply recognise the reality that the international security environment has changed significantly over the past 50 years, particularly in the past ten years. In other words, should Canadian security policy be more reflective of the declining economic and military status of Canada, as well as the fact that growing continentalism and a decline in the need for a counterweight means Canadians might no longer be served by a security policy that is global in outlook.

## **CONCLUSION**

The question which began this chapter was a relatively simple one: What role will Canada play in a post-Cold War NATO? The basis for posing this question flows out of the recognition that the major threat to Canadian security has been greatly diminished, and that the monument constructed to counter that threat now faces serious questions pertaining to its utility as an effective vehicle for preserving European security. Contained within that larger question is the no less important question of the future of multilateralism in post-Cold War security policy. The answer to the question of Canada's role in a post-Cold War NATO will shed light directly on the question of multilateralism.

The premise of this chapter rested on the assumption outlined in the introduction that a change in the structure of the international system should have an effect on the nature and direction of a state's foreign policy. If, during a period of tight bipolar international structure, Canadian foreign policy strongly embraced multilateralism as a fundamental element, then after a period of tight bipolarity, might there not be a discernible shift away from multilateralism, the

fundamental orientation of Canadian foreign policy during the Cold War? In pursuit of the answer to this question this chapter compared Canadian policy towards security in Europe in the early post-war years with the early years of the post-Cold War system. The purpose here was to attempt to establish a linkage between the broad orientation of Canadian foreign policy and changes in the structure of the international system.

The early post-war years saw the development within the Department of External Affairs of a set of clearly defined policy objectives which reflected Canadian national security interests. These national security interests are best defined as ensuring the maintenance of a stable international system, free of conflict, where Canadians could pursue trade and investment opportunities. The policy which grew from this perception of national interest reflected the policy elite's understanding of the international system and Canada's place in that system. In the area of security policy, it was generally recognised that Canadian interests were best protected by active Canadian participation in international affairs. With the greatest threat to Canadian security originating in Europe, it made sense to take action to preserve stability in Europe. Thus, Canadian participation in the creation of the North Atlantic Treaty Organisation seemed almost natural.

The end of the Cold War presented a new series of challenges to the new generation of policy elites at external affairs. The most significant change to come out of the structural shift of 1989 to 1991 was the removal of the Soviet Union as a single clearly identifiable threat. This was replaced by a number of smaller yet no less serious threats to the stability of Western Europe. The German unification question, European integration, economic and political

instability in Russia, Eastern Europe and the former Soviet Republics, along with the decline of American hegemony have together recast the European security equation. These changes have forced the states of Western Europe and North America to reassess the fundamental elements of the original North Atlantic bargain. While the re-negotiation of the transatlantic link is still in the process of working itself out, major changes to the institutions established during the Cold War will have to occur.

The end of the Cold War has brought about a conflict of sorts within the bureaucratic and academic foreign policy elites in Canada. On one side are what can be described as the North Atlantic regionalists who argue that even with the end of the Cold War, Canadian security interests remain global in dimension. This is based on the argument that global instability in general and European insecurity in particular will have a direct impact on the economic and military security of Canada. As such, Canadian interests dictate that Canadians contribute to the establishment of a stable world order. This is achieved through continued participation in multilateral security institutions such as NATO. North Atlantic regionalists believe that this participation can be maintained even as Canadian contributions are reduced in response to economic problems at home. As long as the political will is maintained, so too will be the influence.

What can be termed the continentalists on the other hand, maintain that the end of the Cold War has brought significant change in the international security environment, most notably the rise of continentalism. They also tend to argue that these changes have had a direct impact on the orientation of Canadian foreign policy. In recognition of the rise of economic regionalism globally, they question whether it makes sense or is even worthwhile to maintain

a policy based on an intense preoccupation with European security. Continentalists recognise that the Canada of 1995 is not the Canada of 1945 and it is therefore unreasonable to suggest that Canada should continue to play a role that is no longer commensurate with its declining status. In particular, continentalists question the North Atlantic regionalist argument that Canadian security interests are best served by Euro-Atlantic policy orientation that provides a counterweight to the United States and maintains an international voice for Canada. Continentalists question whether, in a world of rising market-based interdependence, there needs be a counterweight to American influence, and point to the reluctance of Canadians to reject the CAFTA/NAFTA process. As well, continentalists question, in light of the declining economic and military status of Canada, whether Canadians will ever again exercise significant influence in NATO.

Which brings about the very question of Canadian participation in NATO in the post-Cold War. The end of the Cold War brought about a fundamental change in the security architecture of Europe and is reflected in re-invigoration of the WEU and the deepening of EU integration. This has led to a considerably altered North Atlantic relationship. As security issues have evolved into more regionally centred problems, the Europeans, led by the French, have begun to demand a greater role for European institutions such as the WEU and the EU in the resolution of European security questions. The Americans, in recognition of their own domestic problems, seem to be quite willing to let the Europeans take the lead on European questions. The Canadian position in the new relationship seems to be to define a role that permits participation and influence, but is commensurate with its economic and military capabilities.

This seems to be the defining moment in post-Cold War Canadian security policy. The government is caught between the realities of a widening Atlantic and the cost of maintaining influence in Europe. With the closing of the Canadian military bases in Europe and the withdrawal of Canadian troops, the government has signalled that when it comes to European security questions, it is willing to allow the governments of Europe to take a leading role. The future of the Canadian role in NATO is buoyed somewhat by the argument that the alliance itself is attempting to move away from the role of military deterrence and towards a political role that projects stability. What will permit the Canadian government to continue to participate in the NATO alliance without a stationed military commitment in Europe is the fact that as the military aspect of NATO declines, it will be replaced with a political commitment. Membership commitment (and implicitly the problem of military 'free riding') will be measured by the ability to participate in the projection of political stability eastward, which is reminiscent of the origins of the Alliance.

It therefore appears quite likely that multilateralism will continue to play an important role in the future of Canadian security policy. The fact that the Canadian government has reduced its military commitment to NATO does not necessarily mean that Canadian policy-makers in any way plan to reduce the political contribution to the Alliance. The changes that have occurred in Canadian security policy towards Europe on the surface appear to stem from the recognition of structural change, which is reflected in the number of times government documents or speeches refer to the "new world order" or the "new Europe", in the international system. The debate between a North American regional and continentalist orientation of Canadian foreign policy will have a direct impact on the future of security policy. The apparent lack of cohesiveness

in post-Cold War foreign policy as reflected in the European base closings, the misreading of the CSCE, and the role of budgetary considerations, points to the problems the Department of Foreign Affairs is having in dealing with the debate. The government's commitment to rule-based multilateralism appears firm, but is having difficulty making its way into clear, coherent and firm policy objectives.

## **CHAPTER FOUR**

### **Multilateralism and Bilateralism in Post-Cold War Canadian Trade Policy: A Case Study of GATT, CAFTA, and NAFTA**

#### **INTRODUCTION**

Trade policy has always been the subject of passionate debate among the Canadian policy and economic elites. It seems to touch the very roots of the Canadian psyche, as if trade policy was somehow a direct reflection of the personal ability of Canadians to meet the challenges of the international market. If Canadians succeed in world trade, we must be doing something right and thus the success reflects positively on Canadians. If Canadians perform poorly, it is as if, we did not try hard enough or were simply not good enough to meet the challenges put forward by others in the global economic arena. Outside of these purely emotional arguments, trade policy has a more direct impact on the continued economic well being of Canadians. Canadians rely more on exports to maintain their standard of living than most other leading members of the Organisation for Economic Cooperation and Development (OECD). Not surprisingly, governments have tended to place a high priority on trade policy.

The end of the Cold War has not changed the fact that Canadians will continue to rely heavily on exports. The question that students of Canadian foreign policy should concern themselves with at this point is what impact will the end of the Cold War may have on the nature, direction, and scope of Canadian trade policy. This may seem a rather straightforward question, but beneath it lies the very complex foundation of Canada's national economic policy. In order to fully grasp the complexities of Canadian trade policy, it is necessary to

understand the complexities which form the foundation of the Canadian economy. This includes such issues as foreign investment, the nature of Canadian exports, as well as export patterns and established trading relationships.

There exist two main schools of thought which attempt to explain the development of modern Canadian trade policy. Firstly, there is the liberal "there is no alternative" thesis as espoused by writers such as Bruce Muirhead and Jack Granatstein which argues that in the modern post-World War II world, Canada, although a strong and prosperous economy, had little ability to influence the outcomes of the global post-war economic crisis. Trade policy developed as a rational reaction to events that Canadians had little hope of influencing.<sup>147</sup> Secondly, there is the left-nationalist and right nationalist "sell-out" thesis argued by writers such as James Laxer, Glen Williams, Kari Levitt, and Melisa Clark-Jones from the left, and Donald Creighton from the right. The right and left nationalist schools both argue that policy makers in External Affairs, in response to the political will of the governing Liberals, actively sought to formalize north-south trading patterns with the United States to replace domestically the east-west pattern, and internationally the North Atlantic triangle of Canada, Britain, and the United States.<sup>148</sup>

Understanding the origins of modern Canadian trade policy is essential to understanding post-Cold War policy questions. Influences similar to those which affected the development of post-war trade are at present having an impact on

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<sup>147</sup> See Bruce Muirhead, The Development of Postwar Canadian Trade Policy: The Failure of the Anglo-European Option Montreal and Kingston: McGill-Queen's University Press, 1992.

<sup>148</sup> For example, see Donald Creighton, The Forked Road: Canada, 1939-1957 Toronto: McClelland and Stewart, 1976.



post-Cold War trade policy. Issues such as secure access to prosperous and growing markets, and the establishment of clearly defined rules governing trade remain important issues in the post-Cold War international political economy. The aim of this chapter is to examine Canadian trade policy options in the post-war years as well as the post-Cold War years, and to discuss the role of multilateralism in the achievement of trade policy objectives. This discussion assumes greater importance in light of government policy shifts in the field of foreign trade over the past decade, such as the 1985 decision to seek a free trade agreement with the United States, the 1989 decision to enter into free trade negotiations with the United States and Mexico, and most recently the endorsement of the entry of Chile into the North American Free Trade Agreement (NAFTA). The Canadian government has also championed the establishment of a free trade area in the Asia-Pacific area under the auspices of the Association for Pacific Economic Cooperation (APEC) as well as a similar initiative with the countries of Central and South America. Thus it has become necessary to attempt to try to understand how these policy decisions reflect the government's change in attitude, if any, towards the goals of trade policy.

The first section of this chapter will examine immediate post-war trade policy as it developed in the years 1946-1952. During this period many policy decisions were taken (or in some cases not taken) which had a direct and long term impact on the development of the Canadian economy. Prior to and during World War II, Britain had been a secure market for such commodities as agricultural products, timber, and metals. With the decline of the British economy after the war, Canadians lost a significant export market. The loss of this market subsequently had a profound impact on established import and export patterns. Traditionally, Canada ran a trade surplus with Britain and a

trade deficit with the United States. Revenue from exports to the United Kingdom were converted into American dollars and used to purchase manufactured consumer goods from the United States, thus producing a balanced and stable trade pattern. With the failure of the British to reinstate the convertibility of the pound after WW II, and the subsequent loss of the UK market, the decision-makers at External Affairs were forced to seek alternatives to the North Atlantic Triangle system. The preferred policy option was the establishment of the General Agreement on Tariffs and Trade (GATT). From the Canadian perspective GATT was not only an attempt to find new markets for Canadian goods, but was also an attempt to formalize the rules of world trade in an effort to avoid a return to the 1930s. However, as will become evident, the government was not above seeking bilateral deals when Canadian interests warranted.

The second section of this chapter will look at Cold War Canadian trade policy, and the major influences that have affected the development of Canadian trade. Developments such as the globalization of manufacturing and the changing nature of trade, the rise of trade in services, the growth of newly industrialized countries, and the emergence of regional trading blocs, have all had a direct impact on the policy options which are available to decision-makers. As well, understanding Canadian trade policy in the post-Cold War era means recognizing the impact of changes in modern manufacturing, the role that resource economies play in the international political economy, as well as the role of innovation and sustainability in modern industrial development. Each of these presents a fundamental challenge to traditional Canadian trade policy. The challenge facing Canadian foreign policy decision-makers will be to develop trade policies and objectives that not only protect and secure Canadian markets

over both the short and long term, but that find answers to the challenges presented by the post-Cold War international political economy.

The aim of this chapter will be to examine the role that multilateralism has played as a tool for achieving Canadian trade objectives. When Canadians participated in the negotiation of the GATT, trade was generally balanced between the United States and the United Kingdom. Exports consisted primarily of agricultural commodities and natural resource products, with manufactured goods a distant third. The new world trading system, with a greatly increased number of trading nations which are capable of meeting their own agricultural needs, and which can export similar natural resource based goods often at lower prices, has forced Canadians to react. Firstly, Canadians have responded by expanding into new export product and service areas which emphasize new technologies and higher value added, and secondly, by establishing industries that utilize innovative thinking to create technologically advanced methods of design, production, and distribution that adds value to traditional products. Thus the question that emerges is whether the multilateral-based international trading regime established after World War II is able to meet the challenges of the post-Cold War international economy.

## **POST-WAR CANADIAN TRADE POLICY**

The primary goal of post-war trade policy was to ensure that the conditions and processes which led to the breakdown of the international trading system in the 1930s were not repeated. As Robert Bothwell and John English have pointed out, "Canadian trade policy during the 1940s was conditioned by the dismal experience of the 1930s. The spectre of depression was ever

present, and to exorcise it the small Canadian poker-player was driven back to the trading table to gamble with its larger partners, the United States and the United Kingdom.”<sup>149</sup> The trading table to which Bothwell and English refer is the 1947 Conference on Trade and Development, and the 1948 Havana Conference which established the General Agreement on Tariffs and Trade and the failed International Trade Organisation. Within the context of the multilateral negotiations at Geneva and Havana, the government pursued a second, but no less important objective, which was the preservation of the informal North Atlantic trade regime which existed between the United Kingdom, the United States and Canada.<sup>150</sup>

With the impact of the depression still fresh in the minds of policy makers, it is no surprise that both the political and bureaucratic elite sought, above all, security and stability in trade relations. This perceived need for trade security and stability was further heightened by the general uncertainty which surrounded the economic situation of the United Kingdom, which was still a major market for Canadian exporters. How this search for security would manifest itself in the form of actual policy was still uncertain in the early years after the war. The policy options open to the staff at External Affairs were often determined by forces which lay outside the government's ability to control. Trade policy, and more specifically, the choice between bilateralism and multilateralism, was shaped or dictated by many factors, such as the convertibility of currencies, the

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<sup>149</sup> Robert Bothwell and John English, "Canadian Trade Policy in the Age of American Dominance and British Decline, 1943-1947" The Canadian Review of American Studies, Vol. 8, no. 1, (Spring 1977), p. 52.

<sup>150</sup> See Bruce Muirhead, The Development of Postwar Canadian Trade Policy, pp. 3-15, and R.D. Cuff and J. L. Granatstein, American Dollars - Canadian Prosperity: Canadian-American Economic Relations, 1945-1950, Toronto: Samuel-Stevens, 1978, pp. 1-20.

availability of credit, as well as other financial and monetary conditions.<sup>151</sup> As will be demonstrated, this was the case with the establishment of post-war Canadian trade policies. Decision-makers in both the bureaucracy and the government were forced to develop trade policy in reaction to the development and evolution of the larger post-war economic realities.

The preferred policy option in External Affairs was the pursuit of multilateralism and the maintenance of the North Atlantic triangle under the auspices of the General Agreement on Tariffs and Trade. Under this arrangement, the Canadian government had hoped to achieve the best of all worlds - that is, to maintain its existing trade patterns with the United States and the United Kingdom, and the establishment of an ordered system of international trade that would increase Canadian access to a larger percentage of world trade. This increased access would have almost been assured since, by 1947, the 23 Contracting Parties (CPs) of the GATT session at Geneva conducted about 80 per cent of world trade.<sup>152</sup> For the Canadian government, multilateral-based trade under the GATT/ITO held the greatest potential for reversing the impact of the economic turmoil of the 1930s and, more importantly it was hoped, would contribute to its prevention in the future. This belief was articulated by Prime Minister King when he stated that "...for Canada, the importance of the general agreement [on tariffs and trade] can scarcely be exaggerated. The freeing of world trade on a broad multilateral basis is of fundamental importance

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<sup>151</sup> William Diebold, "The History and the Issues" in William Diebold (ed.) Bilateralism, Multilateralism and Canada in US Trade Policy, (Cambridge, Mass.: Ballinger Publishing Co., 1988), p. 2.

<sup>152</sup> Bruce Muirhead, "Perceptions and Reality: The GATT's Contribution to the Development of a Bilateral North American Relationship, 1947-1951" American Review Of Canadian Studies, (Autumn, 1990), p. 280.

to our entire national welfare.”<sup>153</sup> This support for multilateralism was matched by a growing fear of bilateralism, which was viewed as the leading cause of the breakdown of the international trade system in the 1930s. The need for caution regarding bilateralism was expressed by Dana Wilgress, Head of the Canadian Delegation to the Trade and Employment Conference at Geneva in 1947. In a memorandum to Under Secretary of State for External Affairs Lester Pearson, Wilgress stated that:

The International Trade Organisation (ITO) is the chief hope for a viable economic world in the future. The Draft Charter sets forth the principles of multilateralism and non-discrimination as the future basis for the conduct of world trade. It frankly recognizes that these ideals can be attained only in four or five years time. During the intervening period it provides for ample escapes to permit exemptions from these general principles until such time as the productive capacities of the Western and Eastern Hemispheres are one again more nearly in balance.

It is tremendously important therefore that the draft charter establishes the pattern for the future because a large degree of bilateralism and discrimination is inevitable during the intervening period. If there was no provision for the return to the basic principles upon which the whole Canadian economy has been founded, there would be no hope of dislodging the vested interests which would grow up under the practices inevitable during the intervening period.<sup>154</sup>

The trade policy staff at External Affairs were aware of the potential dangers posed by perceived instability in the international trading system, and the

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<sup>153</sup> W. L. Mackenzie King, House of Commons debates, 9 December 1947, quotation cited in Bruce Muirhead, The Development of Postwar Canadian Trade Policy, p. 48.

<sup>154</sup> Dana Wilgress, “Memorandum to the Under Secretary of State for External Affairs” File Number DEA/266(S) TS Documents on Canadian External Relations, Vol. 13 (eds.) Norman Hilmer and Donald Page (Ottawa: Queen's Printer, 1993), p. 1182.

substantial threat posed by bilateralism to established Canadian trading patterns.

However, perhaps the most ironic aspect of Canada's pursuit of a multilateral trading system may have been that it indirectly led to the development of an increasingly bilateral trade relationship with the United States. Prior to World War II, a trade pattern developed between Canada, the United States and the United Kingdom based on the exportation of agricultural and natural resource based products from Canada to the United Kingdom and the importation of manufactured goods into Canada from the United States. Tables 4.1, 4.2, and 4.3 demonstrate these import and export trends for selected years between 1920 and 1939.

These tables show that during the inter-war years, Canada maintained a generally healthy trade pattern within the context of the North Atlantic triangle. While the absolute dollar figures fluctuate, especially during the 1930s, there is the discernible pattern of a trade surplus with the UK and a trade deficit with the US. This deficit was not particularly worrisome, as the surplus with the UK, along with surpluses accumulated from other countries, helped to balance trade over the long run. By the end of World War II, as Tables 4.4, 4.5, and 4.6 demonstrate, this pattern had continued, with an increasing percentage of total Canadian exports headed to the United Kingdom, and increased imports arriving from the United States.

The policy elite were no doubt anxious to ensure that there was no serious disruption of this pattern of trade, both for economic and strategic reasons. It goes without saying that the intensification of trade within the North

Table 4.1: Canadian Exports to the United States and United Kingdom  
1920-1939

Year	Exports to US CDN\$	% of Total	Exports to UK CDN\$	% of Total
1920	581,408,469	43.8	343,216,628	26.9
1925	450,858,964	35.6	493,170,355	39.7
1930	389,912,094	43.2	236,527,017	27.2
1935	273,119,604	36.1	304,318,168	41.9
1939	389,753,598	41.1	328,886,435	35.5

Source: Dominion Bureau of Statistics, *Trade of Canada, Vol. I: Summary and Analytical Tables*  
Ottawa: King's Printer, 1951.

Table 4.2: Canadian Imports from the United States and United Kingdom 1920-  
1939

Year	Imports From US CDN\$	% of Total	Imports from UK CDN\$	% of Total
1920	921,235,401	68.9	231,487,979	17.3
1925	578,575,073	65.0	162,118,705	18.2
1930	653,676,496	64.8	162,632,466	16.1
1935	312,416,604	56.8	116,670,227	21.2
1939	496,898,466	66.2	114,007,409	15.2

Source: Dominion Bureau of Statistics, *Trade of Canada, Vol. I: Summary and Analytical Tables*  
Ottawa: King's Printer, 1951.

Table 4.3: Total Canadian Trade and Surplus/Deficits with the United States and  
United Kingdom, 1920-1939

Year	Total Trade US CND\$	Surplus(+)/Deficit(-) CDN\$	Total Trade UK CND\$	Surplus (+) Deficit (-) CDN\$
1920	1,502,643,870	-251,979,220	547,704,607	+111,728,649
1925	1,029,434,037	-127,716,109	655,289,060	+331,051,650
1930	1,043,588,590	-263,764,402	399,159,483	+73,894,551
1935	585,536,208	-39,297,000	420,988,395	+187,647,941
1939	886,652,064	-107,144,868	328,886,435	+214,879,026

Source: Dominion Bureau of Statistics, *Trade of Canada, Vol. I: Summary and Analytical Tables*  
Ottawa: King's Printer, 1951.



Table 4.4: Canadian Exports to the US and UK, 1940-1945

Year	Exports to US CDN\$	% of Total CDN\$	Exports to UK CDN\$	% of Total CDN\$
1940	451,943,668	37.6	512,317,428	43.1
1941	609,690,509	37.0	661,237,977	40.6
1942	896,620,990	37.5	747,890,838	31.4
1943	1,166,654,796	38.7	1,037,223,500	34.8
1944	1,334,554,446	37.8	1,238,077,617	35.9
1945	2,429,856,797	37.2	971,455,285	29.9

Source: Dominion Bureau of Statistics, *Trade of Canada, Vol. I: Summary and Analytical Tables*  
Ottawa: King's Printer, 1951.

Table 4.5: Canadian Imports from the US and UK, 1940-1945

Year	Imports from US CDN\$	% of Total CDN\$	Imports from UK CDN\$	% of Total CDN\$
1940	744,231,156	68.8	161,216,352	14.9
1941	1,004,498,152	69.3	219,418,957	15.2
1942	1,304,679,665	79.3	161,112,706	9.8
1943	1,423,672,486	82.1	134,965,117	7.8
1944	1,447,225,915	82.3	110,598,584	6.3
1945	1,202,417,634	75.8	140,517,448	8.9

Source: Dominion Bureau of Statistics, *Trade of Canada, Vol. I: Summary and Analytical Tables*  
Ottawa: King's Printer, 1951.

Table 4.6: Total Trade US and UK, and Surplus/Deficits. 1940-1945

Year	Total Trade US CDN\$	Deficit (-)/Surplus(+) CDN\$	Total Trade UK CDN\$	Deficit(-)/Surplus(+) CDN\$
1940	1,196,174,824	-292,287,488	673,533,780	+351,101,076
1941	1,614,188,509	-394,807,795	880,656,934	+441,819,020
1942	2,201,300,655	-408,058,675	909,003,544	+586,778,132
1943	2,590,327,282	-257,017,690	1,172,188,617	+902,258,383
1944	2,781,780,361	-112,671,469	1,348,676,201	+1,127,479,033
1945	2,429,856,797	+25,021,529	1,111,972,733	+830,937,837

Source: Dominion Bureau of Statistics, *Trade of Canada, Vol. I: Summary and Analytical Tables*  
Ottawa: King's Printer, 1951.

Atlantic triangle was the direct result of the cooperative war effort of Britain, the United States and Canada. Much of the increase in Canadian exports to the United Kingdom, from CDN\$ 673 million in 1940, (the first full year of the war) to CDN\$ 1.348 billion in 1944, (the last full year of the war) can be attributed to the need to supply agricultural products, as well as munitions and strategic raw materials to the UK.<sup>155</sup> In terms of the Canadian-American trading relationship, this trend was fostered by an American leadership which permitted the British to finance their war effort through a series of rather innovative financing arrangements. Most notable was the destroyer-for-bases program which was followed by the lend-lease program, both of which had to be carefully shepherded through a somewhat cautious US Congress by the Roosevelt administration.<sup>156</sup>

Of equal importance to the establishment of this trading pattern was the Hyde Park Agreement of 1941. Hyde Park essentially formalized the integration of the two North American war economies by first rationalizing the production of war material in North America, and secondly, by extending the Lend-Lease agreement with Britain to cover goods produced in the United States and exported to Canada for inclusion in finished war materials for Britain. As a result, the British could use American Lend-Lease dollars to purchase Canadian products. These American dollars could then be used to pay for war imports arriving from the United States. The net effect of the agreement was that it removed possible balance of payments impediments to North American trade in

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<sup>155</sup> Bothwell and English, "Canadian Trade Policy in the Age of American Dominance and British Decline, 1943-1947", p. 53.

<sup>156</sup> Cuff and Granatstein, American Dollars - Canadian Prosperity, p. 1.

war goods, and engaged the process of further North American economic integration.

By 1944, total Canadian trade with the United States stood at CDN\$ 2.781 billion with a deficit of CDN\$ 112 million, while total trade with the British stood at CDN\$ 1.348 billion, with a surplus of CDN\$ 1.127 billion. This was an increase in total trade of 132 and 100 per cent respectively from 1940. By 1944, Canadian exports to the United States and the United Kingdom accounted for 73.7 per cent (37.8 % and 35.9 % respectively) of all Canadian exports, while Canadian imports from the United States and United Kingdom accounted for 88.6 per cent (82.3 % and 6.3 % respectively) of total Canadian imports. The importance of both the United States and the United Kingdom to the Canadian economy is clear.

However, after the war ended, as tables 4.7, 4.8, and 4.9 demonstrate, this pattern of trade had begun to deteriorate. This was primarily the result of a convergence of a number of factors, most notably the serious decline of the British economy in the immediate post-war years, which would directly affect Canadian export interests. The first factor was the precipitous decline of the British economy which meant that the British market was unable to absorb pre-war and wartime levels of Canadian exports. Secondly, the British economic decline created serious exchange pressures for the British pound. With the British declaration of war in 1939, the pound was made inconvertible and exchange controls were imposed. In essence, free trade between dollar countries and sterling countries had come to an end.

Table 4.7: Canadian Exports to the United States and United Kingdom 1950-1954

Year	Exports to US CDN\$	% of Total	Exports to UK CDN\$	% of Total
1950	2,050,460,083	64.8	472,536,489	15.1
1951	2,333,911,961	58.7	635,720,958	16.1
1952	2,349,044,404	53.6	751,049,373	17.3
1953	2,463,051,470	58.7	668,873,835	16.2
1954	2,367,438,547	59.7	658,314,823	16.8

Source: Dominion Bureau of Statistics, *Trade of Canada 1955 vol.1: Summary and Analytical Tables*  
Ottawa: Queen's Printer, 1957

Table 4.8: Canadian Imports from the United States and United Kingdom 1950-1954

Year	Imports From US CDN\$	% of Total	Imports from UK CDN\$	% of Total
1950	2,130,475,929	67.1	404,213,449	12.7
1951	2,812,927,298	68.9	420,984,515	10.3
1952	2,976,962,332	73.9	359,757,123	8.9
1953	3,221,214,416	73.9	453,391,388	10.3
1954	2,961,379,507	72.3	392,471,571	9.6

Source: Dominion Bureau of Statistics, *Trade of Canada 1955 vol.1: Summary and Analytical Tables*  
Ottawa: Queen's Printer, 1957

Table 4.9: Total Canadian Trade and Surplus/Deficit with the United States and United Kingdom, 1950-1954

Year	Total Trade US CDN\$	Surplus(+)/Deficit(-) CDN\$	Total Trade UK CDN\$	Surplus(+)/Deficit(-) CDN\$
1950	4,180,936,012	- 80,015,846	876,749,938	+ 68,323,040
1951	5,146,839,259	- 479,015,337	1,056,705,473	+214,736,443
1952	5,326,006,739	- 627,917,926	1,110,806,496	+ 391,292,250
1953	5,684,265,886	- 758,162,946	1,122,265,273	+ 215,482,497
1954	5,326,818,054	- 593,940,960	1,050,786,394	+ 265,843,252

Source: Dominion Bureau of Statistics, *Trade of Canada 1955 Vol.1: Summary and Analytical Tables*  
Ottawa: Queen's Printer, 1957

With the end of the war and the subsequent termination of many of the wartime agreements such as Lend-Lease, the Canadian government had hoped that there would be a quick return to sterling convertibility.<sup>157</sup> This position was conditioned by the fact that Canada was not a member of the sterling block, which meant that pounds generated from the export of goods to the United Kingdom could not be used to purchase goods imported from the United States. Thus the Canadian government was keen to prevent the accumulation of a large sterling balance which would, for all practical purposes, be worthless. Such an act would essentially be equivalent to extending credit to the United Kingdom, which in the very early post-war years the Canadian government felt it could ill afford.

The Canadian government was keenly aware that exports meant prosperity and that any disruption of established trade patterns, which during the 1930s had reduced Canadian exports by approximately 35 per cent, would have far-reaching consequences.<sup>158</sup> The deterioration of the British economy had a double impact on Canadian export potential. Firstly, the weakened position of the British economy meant there was a significant drop in the demand for the goods Canadians had traditionally exported, of which more than 40 per cent consisted mainly of wheat, newsprint, wood pulp, and lumber, much of which

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<sup>157</sup> With the outbreak of war in 1939, the British government suspended the convertible status of the pound. That is to say, the pound could not be exchanged at the Bank of England for US or Canadian dollars. While the British could use pounds to purchase goods abroad, those same pounds could only be used to purchase goods from either the UK or countries that used the pound for the basis of their international transactions. In the case of Canada which remained a member of the dollar group, which meant it used the US dollar as the basis of its international transactions, earnings from exports to Britain could not be exchanged for US dollars and used to pay for imports from the US. As a country dependent on exports to the UK for income and imports from the US for consumer goods, the non-convertible status of the pound would have profound implications for the Canadian economy.

<sup>158</sup> Bruce Muirhead, "Trials and Tribulations: The Decline of Anglo-Canadian Trade, 1945-50" Journal of Canadian Studies Vol., 24, no. 1 (Spring 1989), p. 53.

traditionally went to the United Kingdom.<sup>159</sup> It was assumed that based on the nature of these products much of what could not be sold in the UK could not be sold at all. Secondly, what goods Canadians were able to export to the UK, were paid for in non-convertible pound sterling. Because Canada remained a member of the hard currency dollar group, the immediate impact of this situation was to place Canada in serious balance of payments difficulties.<sup>160</sup>

The situation in Britain, along with the subsequent decline in demand for Canadian goods, combined with the non-convertible status of the pound sterling meant that Canada in 1946 faced the prospect of a major breakdown in its established patterns of trade. This threatened the economic gains that had been achieved during the war. The government was, as a result, compelled to find alternative markets for traditional Canadian exports. Broad-based multilateral trade under the GATT/ITO became the government's preferred trade policy option, as it was quick to learn from its experiences with the British that export market diversification provided the greatest protection from the instabilities of the international market.

This is not to say the government had completely given up on the British as a market for Canadian goods. Rather, the government appeared to be of the opinion that given time to recuperate, the UK could once again become a major destination for Canadian exports. This view is reflected in the fact that the Canadian government made available to the British government a loan of CDN\$ 1.6 million in March of 1946<sup>161</sup>, as well as credits of CDN\$ 500 million in August

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<sup>159</sup> Bruce Muirhead, "Trials and Tribulations", p. 53.

<sup>160</sup> Canada, Dominion Bureau of Statistics, Review of Foreign Trade, 1950, (Ottawa: King's Printer, 1951), p. 13.

<sup>161</sup> Bruce Muirhead, "Trials and Tribulations", p. 53.

of 1948.<sup>162</sup> The decision to provide assistance to the British was not conceived purely in terms of long-term objectives. The government recognized that there were immediate concerns that needed to be addressed. Of particular importance was finding a way to keep the flow of Canadian goods moving into the United Kingdom, as a way of avoiding a severe economic downturn in Canada. While the long-term objective was to ensure the continuing prosperity of the British, the immediate concern was to prevent a complete breakdown of trade relations.

This concern with the preservation of the established North Atlantic trade pattern is reflected in the Canadian government's desire to have European Recovery Program (ERP) or Marshall Plan dollars made available for purchases outside of the United States. As of 1948, the UK consumed 22.3 per cent of all Canadian exports. This amount while not as high as the 30 per cent average set in the inter-war years, nevertheless accounted for a significant portion of total Canadian exports, especially in agricultural products such as wheat. Thus it is no surprise that the Under-Secretary of State for External Affairs would write that:

It is quite clear that the drain on United Kingdom reserves is serious, and that their situation will become impossible without timely ERP assistance. It is equally clear that the deterioration of the UK position has a very important bearing on our own economic position.<sup>163</sup>

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<sup>162</sup> "Summary of Developments Leading up to the Present United Kingdom Financial Crisis", September, 11, 1947, File DEA/154 (S) Documents on Canadian External Relations, Vol. 13 (eds.) Norman Hilmer and Donald Page (Ottawa: Queen's Printer, 1993), p.1320.

<sup>163</sup> Lester B. Pearson, "UK-US-Canadian Financial Discussions" February 6, 1948, File DEA/154 (S) Documents on Canadian External Relations, Vol. 14 (eds.) Norman Hilmer and Donald Page (Ottawa: Queen's Printers, 1994), p. 932.

It is with this in mind that the Canadian government initiated a concerted effort, in conjunction with the United Kingdom, to lobby the American Congress and the Truman Administration to secure passage of the ERP program, and that it would cover British purchases of Canadian goods.<sup>164</sup>

However, the ERP approach reflected only one avenue the government took to resolve Canada's post-war trade problems. The Canadian government was at the same time a leading actor in the GATT/ITO negotiations that were taking place from 1947 to 1954. In the immediate post-war years, the Canadian government was acutely aware of the danger of a general reduction in the volume of world trade. To this end, the bureaucratic and political decision-makers articulated strong support for the establishment of a multilateral world trading system. In the case of the GATT, the government was particularly keen because the Americans had come to the realization that a global multilateral trade system was in their interest, and were therefore, at the outset, strong supporters of the GATT process.

Broadly stated, the Canadian government's primary objective for the GATT/ITO was to find alternative markets to the United Kingdom. After the war the policy elite in Canada were confident that the United States would continue to be a principal source of imports as well as a stable export market. However,

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<sup>164</sup> The road to securing an American commitment to ERP funding and the financing of ERP purchases abroad was not easy. The US Congress was skeptical of the program and if funding was to be made available, it would have to be presented in such a way as to demonstrate first how the ERP would benefit the United States and secondly, how off-shore purchases would be in the best interest of the United States. See Lester B. Pearson, "United Kingdom Situation-Effect on Canada" February 6, 1948, File DEA/145 (S) Documents on Canadian External Relations, Vol. 14 (eds.) Norman Hilmer and Donald Page, (Ottawa: Queen's Printers, 1994), pp. 926,927; Cuff and Granatstein, American Dollars-Canadian Prosperity, pp. 30, 88-89; and Lester B. Pearson, "Canada-UK Financial Arrangements: ERP" March 12, 1948, File DEA/50091-B-40 Documents on Canadian External Relations, Vol. 14 (eds.) Norman Hilmer and Donald Page, (Ottawa: Queen's Printers, 1994), p. 943.



as with any trading relationship, they were also looking for balanced trade relations. It was hoped the British, after a period of reconstruction, would re-emerge as a stable source of imports and a secure destination for Canadian exports. However, signals from the British and the Americans led the government to believe that bilateral attempts at resuscitating the British economy might not be enough. Prudence dictated that other alternatives be investigated should the UK market fail to rebound to its pre-war levels.

This search for balance in its international trade relations was one of the reasons that led the Canadian government to actively participate in the GATT/ITO process. As a country with a strong economy coming out of World War II, Canadians were in a position to take advantage of export opportunities during the period of reconstruction. But these opportunities could only be realized under an open world trading system. The Canadian government's commitment to the GATT process is reflected in the fact it was willing to absorb many of the costs associated with establishment of the GATT. This came in the form of accepting the existence of temporary escape clauses in return for a rule-based system for improved access to global markets.<sup>165</sup>

Unfortunately, by early 1949, it had become apparent that the Charter of the International Trade Organisation would never be ratified. In March of 1948, at Havana, Cuba, the ITO Charter was initialled by 53 contracting parties. Initialling the Charter did not commit a party to ratify the document, and in fact many states did not plan to take formal action until American intentions were

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<sup>165</sup> See "Matters of Policy Arising Out of the ITO Negotiations on Which it is Advisable to Instruct the Canadian Delegation Immediately" August 3, 1947, File DEA/9100-L-40 Documents on Canadian External Relations, Vol. 13 (eds.) Norman Hilmer and Donald Page, (Ottawa: Queen's Printer, 1993), pp. 1142-1143.

known. In effect, this meant that the United States held the fate of the ITO in its hands. The failure to get the ITO Charter ratified was the result of the interaction of a number of factors which affected American decision making. Of particular importance to the US Congress was a concern that the ITO Charter as it stood could have a direct impact on the sovereignty of the United States. That is, that the ITO could supplant the Congress as the final authority in the field of trade policy. The US Congress was willing to grant the World Bank and the IMF considerable power, which was reflective of the notion that few if any US elections are fought on the issue of monetary policy, where trade policy on the other hand often had a more direct impact on the outcome of elections. As well, there emerged in the United States a number of powerful opponents to the ITO which possessed sufficient political clout to turn the political tide against the ITO Charter. As Joan Spero has stated:

The traditionally high tariff policy of the Republican party, the opposition of both the protectionists, who felt it went to far, and the liberals who felt that it did not go far enough toward free trade, and the opposition of business groups that opposed compromises on open trade and at the same time feared increased governmental involvement in trade management coalesced in a majority against the United State's own charter.<sup>166</sup>

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<sup>166</sup> Joan Edelman Spero, The Politics of International Economic Relations 4th Edition (New York: St. Martin's Press, 1990), p. 69. As well, Kenneth Dam has written that "The...problem inherent in the US approach was that the United States failed to appreciate the need for an appropriate institutional framework and placed its faith almost entirely in the substantive agreement. To be sure, the US negotiators were sensitive to the need for an international organization, that is why they sought to establish the ITO. But in the area of commercial policy, they tended to see the organisation's primary purpose as the application and enforcement of substantive rules of law. What was needed was not an enforcement agency, but rather...an institutional framework within which countries might examine the particular circumstances of specif trade problems, thereby if possible, identifying their common interest and working out mutually acceptable solutions. Since the different policies pursued by different countries reflected competing values, it was important to create procedures for clarifying the common interests of the various trading companies and for establishing the impact of specific commercial policies. The ITO was not primarily designed to fulfill that function, and the GATT as it came into

Finally, Congress, as reflective of the US business community began to question the ITO on the grounds that it would have institutionalized a set of trade practices, including escape clauses, which would have permitted a large number of Contracting Parties (CPs) to discriminate against the United States.<sup>167</sup> As a result, when the Congress declined to take action on the ITO Charter, the Truman administration withdrew the charter before it was put to a vote and by late 1950, the ITO was dead.

With the death of the ITO, the Canadian government began to focus on the GATT, (which had been intended only as an interim arrangement until the ITO was formally put into place) to find answers to its post-war trade problems. While the GATT as an international organisation may have been preferred to the ITO and during its existence has been a success and beneficial to the global economy, the disappointing results from the GATT rounds in the period 1947-1955 had a direct impact on the development of post-war trade patterns, despite the best efforts of the government. As the history of the early years of the GATT illustrates, the GATT rounds at Geneva, Annecy and Torquay failed to establish an effective multilateral and non-discriminatory global trade regime, not because the idea itself was flawed, but rather because of the failure of the GATT system to deal effectively with European states which continued to demand and use

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being, was, of course, totally equipped to do so." Also Robert Hudec has written that "Much of the criticism of the ITO had focused on its provisions in areas other than trade policy, and all criticisms had probably been sharpened somewhat by the apparent permanence of the ITO...GATT was narrower, more tentative and made fewer of the wrong concessions." See Kenneth W. Dam The GATT: Law and International Economic Organisation Chicago: University of Chicago Press, 1970, p. 16, and Robert E. Hudec, The GATT Legal System and World Trade Diplomacy New York: Praeger Publishers, 1975, p. 54.

<sup>167</sup> Bruce Muirhead, "Perceptions and Reality: The GATT's Contribution to the Development of a Bilateral North American Relationship, 1947-51" American Review of Canadian Studies Autumn, 1990, p. 286.

monetary based non-tariff barriers such as exchange controls. For Canada, the result was to direct trade away from Europe and towards the United States. As Bruce Muirhead has suggested, post-war trade policy may have been multilateral by preference but was manifestly continental by default.<sup>168</sup>

The first two rounds of GATT negotiations were held at Geneva in 1947, and Havana in 1948. The session held in Geneva was planned with two main objectives in mind. Firstly, the 23 countries present attempted to hammer out a draft charter for the ITO which would be presented for ratification at a world conference on trade and employment to be held in Cuba in 1949. The second objective was to engage in a multilateral round of tariff negotiations under the auspices of the interim GATT arrangement. The negotiations were arranged in a manner such that the principal exporter and principal importer of any commodity negotiated a tariff reduction which was then extended to all the other contracting parties. This system of negotiations was arrived at as a result of British and American negotiations concerning the elimination of imperial preferences. The British would agree to eliminate imperial preferences only if the Americans agreed to large and automatic tariff reductions. The American position on this issue was largely influenced by members of the Administration who were reluctant to see tariffs pushed too low. To resolve this conflict, the Americans suggested bilateral agreements that would be extended to other participants through the most-favoured-nation principle.<sup>169</sup> At the Geneva round, the Canadian delegation was able to negotiate a sound agreement with the United States covering a wide range of products of which Canada was the

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<sup>168</sup> See Bruce Muirhead, "Perception and Reality", p. 281.

<sup>169</sup> Tom Keating, Canada and World Order: The Multilateralist Tradition in Canadian Foreign Policy (Toronto: McClelland and Stewart, 1993), p. 61.

principal supplier. This included a continuation of the free entry status of a number of Canadian products, as covered in the 1938 trade treaty. As well, negotiators were able to secure a number of concessions from the United States on products such as wheat, lumber, shingles, and flour with tariff reductions up to 50 per cent, which was the most the President was permitted to do under the Trade Agreement's Act, the legislation which enabled the executive to enter into trade agreements with foreign countries.<sup>170</sup> All in all, the first round of the GATT/ITO had been a great success.

This, however, did not mean that the policy elite did not have some lingering reservations about the future of this multilateral process. While negotiations with the United States had gone remarkably well, the same cannot be said for the negotiations with the United Kingdom. Still suffering from a pervasive dollar shortage and a disastrous attempt at convertibility in August of 1947, the British were reluctant to remove perhaps the most irksome barrier to trade, that being sterling convertibility.<sup>171</sup> As a result of currency restrictions against hard dollar countries<sup>172</sup>, Canadian products were essentially shut out of the British market. A second and no less troublesome problem for the Canadians was the issue of imperial preference. As a result of the Ottawa Agreements of 1932, a set of tariff rates was established for members of the Empire, which were lower than the general tariff rate. The British were keen to ensure that bound preferential rates established under imperial preference be

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<sup>170</sup> Bruce Muirhead, "Perception and Reality", p. 282.

<sup>171</sup> As a condition of the 1946 American loan, inconvertibility of the pound was to be ended in the summer of 1947. In late July of that year, the British permitted the pound to be converted and subsequently suffered an all not too unexpected run on the sterling, as members of the sterling area and the states of Western Europe exchanged their pounds for American dollars in order to purchase much needed goods from the United States. By August of 1947, the British could no longer sustain the run on its reserves and quickly ended sterling convertibility.

<sup>172</sup> See Footnote 157 for an explanation of the impact of currency restrictions.

maintained, despite the non-discriminatory codes of the GATT. Despite the bilateral-multilateral negotiating process, the British remained skeptical of the American commitment to significant tariff reductions and refused to commit to the elimination of imperial preference.<sup>173</sup> By the end of the Geneva session, the Canadian delegation had made little headway against the currency restrictions imposed by the British. However, they were able to come to an agreement with the British whereby they agreed to continue to extend imperial preference except where rates of duty had been modified by the GATT negotiations. As well, both recognized the right of the other to reduce or eliminate these preferences. While the Geneva round provided a sense of optimism for the future of the GATT/ITO, the government still harboured concern regarding a weakness in the application of the non-discriminatory codes of the GATT.

Up until it became clear that the ITO was doomed, the Canadian government appeared convinced that the ITO Charter would be the protector of Canadian trade interests. The ITO Charter would protect and enshrine the principles of multilateralism and non-discrimination in world markets, which would guarantee Canadians equal access to global markets. So convinced of this fact, the policy elite were willing to permit the Canadian economy to absorb a disproportionate amount of short term costs in the form of third country opt-outs from the non-discrimination clauses, in return for the successful negotiation and ratification of the Charter. This view is reflected by Dana Wilgress, head of the Canadian Delegation to the United Nations Trade and Employment Conference. Wilgress, in writing to Lester Pearson, noted that:

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<sup>173</sup> Tom Keting, Canada and World Order, p. 61.

The International Trade Organisation is the chief hope for a viable economic world in the future. The Draft Charter sets forth the principles of multilateralism and non-discrimination as the future basis for the conduct of world trade. It frankly recognizes that these ideals can be obtained only in four or five years time. During the intervening period it provides for ample escapes to permit exemptions from these general principles until such time as the productive capacities of the Western and Eastern Hemispheres are once again more nearly in balance...Given the inevitability of the departure from multilateralism and non-discrimination during the intervening period, it is important that there should be a large area which remains steadfast to these principles even in spite of the scope given in the Draft Charter to the departure from these principles during the intervening period. Anyone attending the discussions at Geneva would have been impressed by the way in which Canada is regarded as one of the two economically strong countries of the world. We owe it to the world to make use of our greater productive resources, but it is also in our own long term interest to help Europe and the Far East to recover more quickly their productive capacities...This will place a strain upon the Canadian economy but it is one from which there is no escape if we are eventually to have a prosperous and economically strong Canada<sup>174</sup>

Wilgress' views closely mirror those of the External Affairs Trade Advisory Committee which was struck to provide advice and guidance in the issuance of instructions to the Canadian delegation at Geneva and Havana. The Committee recognized that:

In the first place it may seem that world conditions are now very different from what was hoped for when the ITO was conceived, and that the original Charter, which envisaged a truly multilateral system, working almost automatically once it was got underway, has been

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<sup>174</sup> Dana L. Wilgress, "Memorandum from Head, Delegation to Trade and Employment Conference, to Under Secretary of State for External Affairs" September 30, 1947, File DEA/266 (S) TS, Documents of Canadian External Relations, Vol. 13 (eds.) Norman Hilmer and Donald Page (Ottawa: Queen's Printer, 1993), pp. 1182-1185

greatly modified by escape clauses and exceptions. In these circumstances, the Canadian government may feel that there would be a risk in putting any part of the Charter and tariff schedules into immediate effect, especially as, among all the escape clauses which other nations may be expected to use freely, Canada's right to correct what seems to be a long term weakness in her [sic] balance of payments position, does not appear to be adequately protected.<sup>175</sup>

However, the Committee went on to recommend that the Canadian delegation should support the draft of the ITO Charter, and it notes specifically that "the Committee realizes that there is a risk in accepting the Charter with all the escape clauses and exceptions now included, but feels that, in balance, it is a risk that should be taken."<sup>176</sup> The Canadian negotiating position at both Geneva and Annecy, France, was conditioned upon the government's willingness to absorb certain costs in exchange for increased assurances that the ITO Charter would be adopted and the ITO would establish a truly multilateral and non-discriminatory world trading system over the long term.

While the government was willing to absorb disproportionate costs in the establishment of the ITO trade regime, by the end of the first round of GATT negotiations at Geneva, a sense of pessimism had set in, and by the end of the negotiations at Annecy, the government was almost convinced that a multilateral, non-discriminatory global trading system would never be achieved. Up until this point, much of the Canadian optimism about the ITO had been conditioned by the fact that in the immediate post-war years the American administration, both under Roosevelt and Truman, was a strong champion of multilateralism. In both military security and trade, multilateralism was believed

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<sup>175</sup> "Matters of Policy Arising out of the ITO Negotiations on which it is Advisable to Instruct the Canadian Delegation Immediately", August 3, 1947, File DEA/9000-L-40 Documents on Canadian External Relations, Vol. 13 (Ottawa: Queen's Printers, 1993), p. 1142.

<sup>176</sup> "Matters of Policy Arising out of the ITO Negotiations", p. 1143.



by the US administration to be the best hope for the quickest return to European security. However, by 1949, American leadership in the field of international trade had begun to falter, and American policy had become "indistinct and confused".<sup>177</sup>

As well, by this time the British and the Western European economies had not rebounded as quickly as the Americans and Canadians had believed they would. The UK and the states of Western Europe were, as a result reluctant to reduce tariff rates and were making full use of the escape clauses negotiated at Geneva the year before. Complicating factors further for the Canadian government was the fact that because the European economies had not recovered as quickly as had been hoped, sterling inconvertibility remained, and continued to act as a major barrier to trade. The end result was to throw the negotiations at Annecy into a state of confusion. While some progress was made, the negotiations themselves did little to further the implementation of a global non-discriminatory trading system.

Instead of providing the opportunity for further movement towards the freeing of international trade, the opposite seemed to be occurring. After the negotiations at Annecy, more and more countries sought protection behind non-tariff barriers and the escape clauses which had been permitted under the GATT and the ITO Charter. The immediate result was that Canadian exporters began to find it increasingly difficult to cultivate inroads to the markets of Western Europe. Although willing to accept certain costs in return for agreement on the ITO, the Canadian government's inability to negotiate an easing of dollar

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<sup>177</sup> Muirhead, "Perception and Reality", p. 287.

restrictions at Annecy demonstrated to the Canadian delegation that the prevailing climate in 1949 was one that was not conducive to multilateralism.

The next round of tariff negotiations was held at Torquay, England, in late 1950 and early 1951, and was the first round to be held after the death of the ITO. The results, or non-results, achieved at Torquay were directly the result of residual feelings left over from the Annecy negotiations, and a number of global factors which directly affected participants' perceived ability to make concessions on the opt-out provisions negotiated in earlier rounds. Most importantly to consider is the fact that conflict broke out in Korea in 1950, and the western world, led by the United States, took action against this perceived threat from Communism. The Korean conflict was particularly problematic for the British, as well as other Western European states, as the need to rearm led to increasing inflationary pressure which led to yet another severe dollar crisis.

By the end of the Torquay session, the Canadian government had become convinced that there was no hope for the establishment of a truly multilateral trade regime. The death of the ITO in early 1950 had dashed the hopes of the policy elite at External Affairs, who had pinned their hopes for a future world trading system on the success of the ITO. With the failure to ratify the ITO Charter, the Canadian government's hope for any kind of multilateral trading system now rested with the GATT. However, as a result of the difficult economic position in which the British found themselves in 1950-51, the negotiations at Torquay did not go very well. The British and the Americans could not come to an agreement under the principal supplier sections of the GATT, and as such, negotiations among the American-British-Canadian tripartite were difficult, and did not lead to any substantial agreements. The only

bright spot that would emerge from the Torquay negotiations was an agreement between Canada and the United States covering more than 400 items which totaled close to CND\$ 120 million.<sup>178</sup>

The impact of the failure of the GATT process, along with its accompanying causes such as the failure of the British economy to recover quickly and the subsequent need to impose both tariff and quantitative import restrictions from dollar countries, led the Canadian policy elite to write off multilateralism as the future in world trade. As John Deutsch, a member of the Canadian delegation to Torquay pointed out, "Torquay had been a total bust, except for Canada and the US, the multilateral world was dead for the visible future, and Torquay was its tombstone."<sup>179</sup> With multilateralism believed to be dead, the policy elite turned to the only viable option available, that being the establishment of a closer continental trading relationship. As the British and the Europeans, for their own reasons, refused to lower tariff and quantitative restrictions on the importation of Canadian goods, other markets had to be found. In the immediate post-war years, the United States was the only market able to absorb Canadian imports at a level which would support the existing Canadian standard of living.

This is not to say that there was unanimous support for this course of action. People like John Deutsch welcomed this development, while others such as Lester Pearson remained uneasy and warned of the obvious risks and dangers to Canadian sovereignty posed by too intimate a relationship with the

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<sup>178</sup> Muirhead, "Perception and Reality", p. 293.

<sup>179</sup> Muirhead, "Perception and Reality", p. 294.

United States.<sup>180</sup> However, despite their own beliefs, the policy elite recognized the fact that global non-discrimination remained a distant prospect, and that as a country dependent on exports as a source of wealth, Canadians had to search out new markets. The United States, with its vast wealth, seemed the only stable destination for exports, whereas Britain and Western Europe were not. Despite the need for the American market to maintain an acceptable level of Canadian prosperity, it should be noted that the years 1945-51 marked only the beginning of the gradual march towards closer export reliance on the US. For example, events such the formation of the European Coal and Steel Community in 1951-52 and the European Economic Community in 1957-58 had a significant impact in driving Canadian exports south by reducing the European trade option as a counterbalance to the US.

During the period 1945-1951, the Canadian government pursued both bilateralism and multilateralism in its search for export security. In an attempt to preserve its established pre-war trading patterns, the government was willing to go to great lengths to ensure the quick recovery of the British economy. This took the form of a bilateral loan and the extension of credits for the purchase of Canadian goods. When it became apparent that this loan, along with a larger American loan would be insufficient, the Canadian government looked firstly to the United States and Marshall Plan aid as a source of dollars which would allow the British to continue to purchase in Canada. However, this was only to be a short-term plan to aid the reconstruction of the wartime economies. The government placed its long-term export prospects in the development of a multilateral, non-discriminatory trade regime under the GATT/ITO. When the

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<sup>180</sup> Muirhead, "Perception and Reality", p. 295.

economic conditions necessary to permit the GATT/ITO to function properly never materialized, this soon became a non-option. Thus the only alternative was for the government to seek secure trade relations with the United States. As Bothwell and English have observed, there was no fixed Canadian position on international trade during this period. "Canadian policy out of necessity was reactive, not creative, and common prudence dictated a policy for each possible circumstance."<sup>181</sup>

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<sup>181</sup> Bothwell and English, "Canadian Trade Policy in the Age of American Dominance and British Decline", p. 63.

## THE POST-COLD WAR AND CANADIAN TRADE

The Uruguay Round GATT negotiations began in 1986, three years prior to the beginning of the end of the Cold War. Even before the end of the Cold War, the international economy had undergone a significant transformation that challenged the established economic order of the post war world. This transformation of the international economic system, it might be argued, can be traced as far back as the August 1971 US decision to abandon the gold standard which effectively signaled the end of the Bretton Woods post-war economic system. By 1986, what has been popularly referred to as “globalization” - understood as the rise of trans-national corporations, global production and intra-firm transfer, an explosion in cross border financial transactions, and the rise of services in international trade - had re-shuffled the international political economy deck. The Uruguay Round was launched primarily to try to deal with many of the globalization issues as they related to international trade.

In the early post-war years, Canadian objectives at the GATT negotiating sessions of Geneva, Annecy, and Torquay were primarily concerned with the issue of tariff reductions and market access for manufactured and agricultural goods, and market protection for domestic agricultural commodities. Tables 4.10, 4.11, and 4.12 list the Canadian dollar value of Canadian exports for the years 1946-1951 broken down into seven main commodity groups. These tables show a general growth trend in Canadian exports in the early post-war years, and that Canadian exports were dominated by wood, wood products and paper, agricultural products, non-ferrous metals and their products, and iron and its

Table 4.10: Trade of Canada with All Countries by Main Group 1946-51

	Agricultural Products	Animal and Animal Products	Fibres and Textiles	Wood Products and Paper	Iron and Its Products	Non-Ferrous Metals	Chemicals
1946	579,778,650	361,416,837	56,809,478	626,364,417	231,835,451	251,336,395	68,566,377
1947	686,539,310	333,787,807	52,408,257	887,066,050	286,509,752	306,481,840	85,671,275
1948	645,348,974	436,679,814	48,478,852	954,559,999	294,818,256	398,121,861	81,506,975
1949	774,299,381	339,812,618	29,043,538	875,973,623	385,495,756	428,223,728	72,034,355
1950	638,534,768	367,876,422	33,615,357	1,113,622,540	264,078,553	460,596,647	101,736,021
1951	895,846,675	350,644,563	45,233,962	1,399,926,741	360,514,485	574,290,839	133,783,483

Source: Dominion Bureau of Statistics, Trade of Canada, 1953 - Summary and Analytical Tables, Ottawa: Queen's Printer, 1953.

Table 4.11: Trade of Canada with United Kingdom by Main Group 1946-51

	Agricultural Products	Animal and Animal Products	Fibres and Textiles	Wood Products and Paper	Iron and Its Products	Non-Ferrous Metals	Chemicals
1946	224,254,886	173,449,257	2,375,221	85,348,689	17,167,328	82,030,652	4,001,400
1947	319,964,665	150,892,413	1,858,568	136,417,730	22,259,689	98,977,843	8,279,985
1948	271,945,448	271,945,448	2,550,330	100,731,607	22,193,933	131,901,356	7,369,546
1949	341,015,460	72,486,084	2,879,124	84,821,371	22,602,979	148,050,446	5,587,154
1950	228,935,212	53,403,470	1,793,692	41,683,792	10,754,582	117,472,602	6,056,563
1951	231,724,762	29,917,221	1,784,059	141,222,611	21,790,514	182,475,902	10,618,326

Source: Dominion Bureau of Statistics, Trade of Canada, 1952 - Summary and Analytical Tables, Ottawa: Queen's Printer, 1953.

Table 4.12: Trade of Canada with the United States by Main Group 1946-51

	Agricultural Products	Animal and Animal Products	Fibres and Textiles	Wood Products and Paper	Iron and Its Products	Non-Ferrous Metals	Chemicals
1946	114,391,033	101,599,547	13,245,996	448,092,107	35,484,082	101,553,536	30,569,855
1947	67,378,170	96,272,403	12,516,989	612,149,736	63,802,717	102,393,429	32,839,393
1948	140,351,230	219,505,008	18,904,401	746,600,158	98,461,733	168,470,401	34,560,845
1949	171,598,660	201,803,832	12,994,275	710,382,636	115,813,134	198,124,708	34,218,326
1950	178,023,398	155,280,870	21,117,398	1,016,914,665	146,983,942	270,180,606	59,514,794
1951	264,406,530	267,781,785	23,875,418	1,115,312,982	183,519,608	280,828,475	68,545,722

Source: Dominion Bureau of Statistics, Trade of Canada, 1952 - Summary and Analytical Tables, Ottawa: Queen's Printer, 1953.

products. They also demonstrate the general decline of the UK as a significant export destination for Canadian goods, and a subsequent increase in Canadian exports to the US.

By the time the Uruguay Round (UR) negotiations had begun, most issues surrounding tariff rates and market access (except agriculture) had more or less been settled. Although the Annecy and Torquay Rounds had not lived up to expectations, the Kennedy Round (1962-67) and the Tokyo Round (1973-79) had made substantial progress in the lowering of most tariffs. In the case of Canada, after the Tokyo Round commitments had been implemented, average tariff rates in most sectors had declined to about 10 per cent, while in the case of the United States, average tariff rates declined to about five per cent. However, one of the major shortcomings of both Kennedy and Tokyo was the inability to deal with the problem of agricultural subsidies and domestic market protection. As a result, by the end of the Tokyo Round, most developed countries were still exercising their option under the GATT to implement exemption clauses to protect domestic agricultural producers.

By the time the UR had commenced at Punta del Este, many new issues had emerged in the world economy which required attention. In particular, advancements in communications brought about the phenomenon of "globalization" in the international political economy. Capital was now more fluid than it had been in the past, and could be moved from one location to another, across national boundaries in a matter of seconds. This globalization subsequently led to dramatic changes in the nature of manufacturing as corporations sought out locations that would bring the greatest return on investment. International trade became less dependent on the traditional



Riccardian notion of comparative advantage, and became centred on intra-firm transfer of components that could be manufactured in a number of locations and assembled in yet another. These capital flows had a dramatic impact on the trade patterns of both developed and developing countries with each recognizing that current GATT rules were not sufficient to deal with such changes.

Finally, between Tokyo and Uruguay, international trade in services began to take off, particularly in the developed world. The growth in international trade in services was a direct result of the rise of services as a percentage of domestic GNP in the 1980s. As service providers such as banks, insurance companies, and other financial institutions sought new markets, they began to look beyond national borders and towards other countries. By 1991, the services sector accounted for nearly 70 per cent of GDP in the developed world and up to 50 per cent of GDP in the developing world. While only 10 to 15 per cent of services are traded commercially across borders, service exports are generally estimated to be worth over \$US 700 billion per year and make up 25 to 30 per cent of world trade.<sup>182</sup> Since the international trade of services was not seriously considered at either the Kennedy or the Tokyo Rounds, the UR undertook the challenge to develop a trade regime which could deal with this growing phenomenon.

By the time the UR session had commenced, the Canadian economy was beginning to feel the influence of many of these global trends. As well, the trade

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<sup>182</sup> William J. Drake and Kalypso Nicolaïdis, "Ideas, Interests and Institutions: "Trade and Services" and the Uruguay Round" International Organisation Vol. 46, no. 1 (Winter 1992), p. 37.

patterns that had emerged after WWII were, in many instances, intensified as Canadian exports were further concentrated in the United States. As well, the United Kingdom continued to decline as a major destination for Canadian goods particularly after 1972 and British entry into the European Community, and imports of consumer goods began to increase from Japan. Tables 4.13 and 4.14 show overall Canadian export trends from 1984 to 1993 for the United States, the European Union and Japan.

These two tables illustrate some of the general trends in the direction of Canadian exports over the past decade. Most notably, one should take notice of the steady increase in both the dollar value and the percentage of total exports directed to the United States after 1989, the first year the Canada-US Free Trade Agreement (CAFTA) was in force, as well as the general decline in both dollar value and percentage of exports to the next two largest destinations for Canadian exports: the European Union and Japan. Table 4.14 describes the general, although uneven, growth trend in total Canadian exports, both in total dollar value and percentage increase from one year to the next. Table 4.15 illustrates Canadian international transactions in services between 1969 and 1987.

Table 4.16 demonstrates a number of trends in the modern Canadian export economy. Most notable has been the high degree of reliance on the United States as the primary destination of Canadian exports (79.5 per cent of total) particularly in sectors such as minerals, chemicals, textiles, base metals, consumer goods, transportation, and miscellaneous manufactured goods, all of which are above the 75 per cent level. As well, they clearly demonstrate the

declining importance of Canada's next two largest markets, Japan and the EU, which consume 4.2 per cent and 5.1 per

Table 4.13: Canadian Export Trends by Major Trade Partners 1984-1993

Year	United States	% of Total	European Union	% of Total	Japan	% of Total
1984	84,928,000,000	75.6	7,302,000,000	6.5	5,666,000,000	5.0
1985	93,059,000,000	77.9	7,086,000,000	6.0	5,737,000,000	4.8
1986	93,206,000,000	77.2	8,186,000,000	6.8	5,967,000,000	4.9
1987	94,505,000,000	75.5	9,552,000,000	7.6	7,073,000,000	5.6
1988	100,851,000,000	72.8	11,247,000,000	8.1	8,813,000,000	6.4
1989	101,591,000,000	73.2	11,889,000,000	8.6	8,844,000,000	6.4
1990	111,556,000,000	74.9	12,204,000,000	8.2	8,230,000,000	5.5
1991	109,641,000,000	75.1	11,803,000,000	8.1	7,759,000,000	5.3
1992	125,670,000,000	77.1	11,681,000,000	7.2	7,490,000,000	4.6
1993	150,542,000,000	80.4	11,074,000,000	5.9	8,492,000,000	4.5

Source: Statistics Canada, Exports: Merchandise Trade 1993, Ottawa: Queen's Printer, 1994.

Table 4.14: Total Canadian Exports 1984-1993

Year	Total Exports	% Change
1984	112,383,000,000	
1985	119,474,000,000	5.9
1986	120,669,000,000	1.0
1987	125,086,000,000	3.5
1988	138,498,000,000	9.7
1989	138,701,000,000	.15
1990	148,979,000,000	6.9
1991	145,927,000,000	-2.1
1992	162,823,000,000	10.3
1993	187,347,000,000	13.0

Source: Statistics Canada, Exports: Merchandise Trade 1993, Ottawa: Queen's Printer, 1994.

Table 4.15: Canadian International Transactions in Services 1969-1987  
(Millions of CDN\$)

Year	1969	1973	1977	1981	1983	1984	1985	1986	1987
Receipts	2,862	4,118	6,687	12,447	12,889	14,705	15,909	17,569	18,089
Payments	3,633	5,297	9,728	15,861	16,735	19,139	20,734	22,800	25,134

Source: Statistics Canada, Canada's International Transactions in Services, 1991-92 Ottawa: Minister of Industry, Science and Technology, 1993.

Table 4.16: Canadian Exports by Group and Destination (as of November, 1994)  
(,000 CDN\$)

Group	United States	% of Total	Japan	% of Total	EU	% of Total	All
Agriculture	5,924,415	46.3	2,050,400	16.0	1,238,440	9.7	12,795,831
Mineral Products	19,118,183	83.5	1,544,238	6.7	1,030,597	4.5	22,892,111
Chemicals	6,441,487	76.1	276,311	32.3	417,912	5.0	8,465,233
Pulp and Paper	11,517,082	67.5	1,188,343	6.9	2,170,138	12.7	17,053,543
Textiles	2,032,409	82.0	16,105	.65	127,460	5.1	2,477,346
Base Metals	12,450,329	80.7	424,436	2.7	1,095,199	7.1	15,424,281
Consumer Goods	23,436,057	83.4	220,162	.78	1,626,475	5.8	28,112,023
Transportation	51,498,346	94.5	121,464	.22	508,797	.93	54,493,272
Misc. Manufactures	3,326,003	90.8	68,443	1.8	110,651	3.0	3,659,571
All Groups	168,644,913	79.5	8,680,850	4.2	10,467,746	5.1	205,790,042

Source: Statistics Canada, Exports by Commodity, November, 1994, Ottawa: Minister of Industry, Science and Technology, 1995

Table 4.17: Business Services by Category and Area, 1991 (Receipts)

Category	United States	EU	Other	Total
Consulting	264,000,000	60,000,000	499,000,000	823,000,000
Transportation	336,000,000	286,000,000	265,000,000	987,000,000
Management	449,000,000	116,000,000	73,000,000	639,000,000
R&D	874,000,000	62,000,000	68,000,000	1,004,000,000
Commissions	519,000,000	177,000,000	268,000,000	964,000,000
Intellectual Property	93,000,000	37,000,000	60,000,000	180,000,000
Films/Broadcasting	169,000,000	19,000,000	3,000,000	191,000,000
Advertising	60,000,000	28,000,000	25,000,000	112,000,000
Insurance	869,000,000	205,000,000	208,000,000	1,282,000,000
Other Financial	238,000,000	134,000,000	116,000,000	488,000,000
Computer Services	218,000,000	50,000,000	20,000,000	287,000,000
Equipment Rentals	157,000,000	36,000,000	21,000,000	214,000,000
Franchises	6,000,000	---	---	6,000,000
Communications	298,000,000	94,000,000	289,000,000	680,000,000
Refining Services	28,000,000	18,000,000	33,000,000	79,000,000
Automotive Charges	546,000,000	53,000,000	29,000,000	627,000,000
Other	132,000,000	31,000,000	101,000,000	264,000,000
Total	5,245,000,000	1,506,000,000	2,078,000,000	8,827,000,000

Source: Statistics Canada, Canada's International Transactions in Services, 1991-92, Ottawa: Ministry of Industry, Science and Technology, 1993

Table 4.18: Business Services by Category and Area, 1991 (Payments)

Category	United States	EU	Other	Total
Consulting	336,000,000	112,000,000	182,000,000	630,000,000
Transportation	306,000,000	369,000,000	262,000,000	937,000,000
Management	1,557,000,000	144,000,000	46,000,000	1,747,000,000
R&D	658,000,000	91,000,000	16,000,000	765,000,000
Commissions	410,000,000	78,000,000	176,000,000	664,000,000
Intellectual Property	1,484,000,000	158,000,000	164,000,000	1,806,000,000
Films/Broadcasting	510,000,000	36,000,000	13,000,000	559,000,000
Advertising	180,000,000	12,000,000	37,000,000	229,000,000
Insurance	1,149,000,000	379,000,000	362,000,000	1,890,000,000
Other Financial	432,000,000	402,000,000	157,000,000	990,000,000
Computer Services	590,000,000	9,000,000	1,000,000	600,000,000
Equipment Rentals	271,000,000	20,000,000	19,000,000	310,000,000
Franchises	95,000,000	4,000,000	--	99,000,000
Communications	61,000,000	155,000,000	436,000,000	653,000,000
Automotive Charges	483,000,000	--	--	483,000,000
Other	353,000,000	168,000,000	94,000,000	594,000,000
<b>Total</b>	<b>8,877,000,000</b>	<b>2,115,000,000</b>	<b>1,965,000,000</b>	<b>12,957,000,000</b>
<b>Balance</b>	<b>-3,632,000,000</b>	<b>-609,000,000</b>	<b>113,000,000</b>	<b>-4,129,000,000</b>

Source: Statistics Canada, *Canada's International Transactions in Services, 1991-92*, Ottawa: Ministry of Industry, Science and Technology, 1993

cent respectively, of Canadian exports. With respect to Japan, mineral products, pulp and paper, *textiles*, base metals, *consumer goods*, *transportation equipment*, and miscellaneous manufactured goods are all below the 10 per cent level. With respect to the EU, agriculture, mineral products, chemicals, textiles, base metals, consumer goods, *transportation equipment*, and miscellaneous manufactured goods, all fall below the 10 per cent level.\* Tables 4.17 and 4.18 demonstrate the importance of services not only to the growth of the Canadian economy, but also of services as an important segment of Canadian exports.

\* *Italicized* goods indicate less than 1 per cent of total exports go to that market.

These statistics are important because they help explain some of the influences on Canadian foreign policy-decision makers, particularly as to why the government embarked on the bilateral CAFTA negotiations in 1985 and the regional NAFTA negotiations in 1991, while simultaneously staking out a Canadian position in the multilateral GATT negotiations of the Uruguay Round. While it would be nearly impossible to try to account for the impact each export sector has on the development of trade policy, it would be beneficial to look at a representative sample of export sectors which are regarded as having a significant impact on the overall economic prosperity of Canadians. Specifically, agriculture, services and high-technology industries (such as aerospace/aeronautics, telecommunications, and biotechnologies) are three important components of the Canadian economy and account for both a high percentage of gross domestic product (GDP) and export wealth. Both agriculture and services were significant negotiating issues in the UR GATT talks, as well as the CAFTA and NAFTA negotiations, which is reflective of their importance to both domestic interests and the international economy, while high-tech industries represent future sources of wealth and employment creation in mature economies such as Canada's. Thus, a closer examination of these three sectors will facilitate a better understanding of the relationship between the Uruguay Round, CAFTA and NAFTA, and the Canadian government's policy towards multilateralism in trade policy.

In the area of trade in services, the UR made substantial progress in terms of bringing the GATT up to date with changes in the international economy. Previous to the UR, the agreement had been limited to trade in goods, and thus was not fully reflective of the international economy where services accounted for more than 60 per cent of world output and more than 20

per cent of world trade.<sup>183</sup> The UR produced the General Agreement on Trade in Services (GATS) which created a multilateral framework of rules and principles for the international exchange of services. The GATS consists chiefly of two main elements. It first establishes a multilateral and non-discriminatory regime which encompasses the principles of most-favoured nation and national treatment, but allows states exemptions from its application. Secondly, it increased transparency by requiring that all national laws and regulations pertaining to services be published. The UR did not manage to solve all the problems associated with the international trade in services in terms of the reduction of trade barriers, and the exemption provisions of the GATS might prove to be problematic in the future as similar exemptions in the agricultural sector have demonstrated. However, it did manage to take what has amounted to a very difficult first step. This failure to resolve all problems in the international trade in services is reflective of the challenge of negotiating a broad-based trade agreement with 117 participants.

Agriculture proved to be another area where significant progress was made in the resolution of irritants. Prior to the UR, advanced economies had made extensive use of the GATT exemption provisions. This action was reflective of the influence of the farming community in most of the advanced industrialized countries, as well as the perceived need for states to be generally self-sufficient in the production of basic foodstuffs. Agriculture was brought onto the GATT agenda in 1986, because what had amounted to a number of stresses in the 1970s developed into major weaknesses in the 1980s. In particular, the use of subsidies and the increase in the use of contingent measures such as

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<sup>183</sup> Joseph A. McKinney, "The World Trade Regime: Past Successes and Future Challenges" International Journal Vol. XLIX, no. 3, (Summer 1994), p. 450.

anti-dumping and countervail seriously distorted international trade in agricultural products. Export subsidies, whose use was elevated to an art form by the European Union and the United States, were particularly troublesome because they distorted international markets which shut many smaller suppliers out of traditional markets. The explosive growth in the use of countervail and anti-dumping measures in the 1980s posed a serious challenge to the GATT because such actions tended to marginalise the GATT's role in the policing of alleged unfair trade practices. This in turn led to an overall erosion of respect for GATT principles and rules.<sup>184</sup>

The Canadian government viewed the UR agriculture negotiations as important because as a small country, in comparison with the United States and the European Union, without the power of retaliation, its interests could only be protected by the existence of a rule-based international trading system. Within the agricultural negotiations themselves, the Canadian position was heavily influenced by the dichotomy which existed between the need to foster the interests of the exporting sector - mainly grains, oilseeds, and red meats - while preserving the right to protect less competitive sectors such as dairy, poultry, and eggs.<sup>185</sup> Thus, Canadian objectives for agricultural policy and trade reform in the UR were determined by both its position as a net exporter of farm and food products, and by the divergent interests of both export and domestic-oriented commodity sub-sectors, as well as the various domestic programs that support them.

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<sup>184</sup> David Greenaway, "The Uruguay Round: Agenda, Expectations and Outcomes" in Agriculture in the Uruguay Round (eds.) K.A. Ingersent, A.J. Rayner, and R. C. Hine, (London: St. Martin's Press, 1994.), p. 14.

<sup>185</sup> T.K. Warley, "The Canadian Perspective" in Agriculture in the Uruguay Round (eds.) K.A. Ingersent, A.J. Rayner, and R.C. Hine, (London: St. Martin's Press, 1994), p. 110.



As a net exporter of agricultural goods, it was in the best interests of Canadian farmers and agri-food producers to bring about a reduction in the level of support and protection in other countries so that a number of Canadian goals could be achieved. These goals included ensuring that future growth in world food consumption would be met from low-cost sources, reshaping Europe's Common Agricultural Policy (CAP) in advance of the creation of a pan-European entity, preventing the emergence of a second wave of agricultural protectionism among the newly industrialized countries, reinforcing the political democratization and economic liberalization of the former communist countries by incorporating them into a market driven international order, and finally, strengthening the integrity of the multilateral trading system by bringing agriculture into the GATT.<sup>186</sup> These were incorporated into the broader and more immediate objectives of realizing the economic benefits of Canada's comparative advantage in agriculture by reducing the level of support and protection in other countries, and permitting the agriculture sector to remain viable without the need for the present level of support which was both unsustainable and unjustifiable over the longer term.

Thus Canadian negotiators entered the UR with a set of four objectives designed to achieve the goals outlined above. These objectives consisted of :

- ◆ a substantial reduction of tariff and non-tariff barriers;
- ◆ the elimination of export subsidies;
- ◆ the articulation of strengthened and more effectively applied GATT rules, equally applied to all countries; and
- ◆ a system to ensure that health and sanitary measures are not used to inhibit trade.<sup>187</sup>

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<sup>186</sup> Warley, "The Canadian Perspective", pp. 119-120.

<sup>187</sup> Warley, "The Canadian Perspective", p. 120.

With respect to products that were oriented to the domestic market, Canadian negotiators went into the UR with an essentially defensive position. The Canadian position was essentially to try to win concessions that would permit the government the right to retain the import quota system which allowed the existence of the supply management system, particularly in the fields of dairy, poultry, and egg production. This position especially with respect to the dairy industry, was heavily influenced by domestic considerations. As Ted Cohn has argued, the high profile of the Quebec dairy industry which accounts for over one third of the province's farm income influenced federal leaders who "feared that any wavering of support for supply management could exacerbate tensions over national unity."<sup>188</sup> In the end, the government soon came to the realization based on the evolution of the UR session, it would be impossible to negotiate an open and unsubsidized international agricultural trade system that permitted the existence of import quotas. When the US, the EU and Japan reached an agreement on an agricultural tariff system, the Canadian government, despite fierce lobbying and negotiating, was forced to was to abandon its position on supply management and accept the GATT tariffication plan. However, the government in response, set its tariffs on poultry, eggs, and dairy products at what has been described as prohibitively high rates. For example, the duties for butter were set at 351.4 per cent, ice cream at 326.0 per cent, milk at 283.3 per cent and chicken at 280.4 per cent.<sup>189</sup> These rates were chosen to take advantage of the UR wording on agricultural tariffs which states that industrial countries are to reduce their agricultural tariffs by an average of 36 per cent over a six year period, with a minimum reduction of 15 per cent. Obviously under the

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<sup>188</sup> Theodore H. Cohn, "The Future of Canadian-American Agricultural Trade Relations" Northwest Journal of Business and Economics (DATE), p. 62.

<sup>189</sup> Cohn, "The Future of Candian-American Agricultural Trade Relations", p. 64.

Canadian plan, even after the six year period, agricultural tariffs would still provide significant protection for Canadian farmers.

The field of trade in high-technology goods presented some difficult problems for the Canadian government. While there was no GATT negotiating committee on high technology such as agriculture and services, trade in this field is of particular importance to most of the developed nations which participated in the UR. For most mature economies such as Canada's, the manufacture and export of high technology goods are seen as the future path for economic growth and prosperity. In the case of the United States, growth in high technology production is understood in strategic terms as a way of ensuring the dominant position of the American economy in the international economy. American decision makers view American economic superiority as the necessary ingredient in preserving American military strength, thus ensuring that the United States will never be threatened by another power. Thus, the end of the Cold War has had a more dramatic impact on the issue of high technology trade than perhaps any other segment of the international export market.

The increasing importance of international trade in high technology goods such as semi-conductors, micro-processors, and bio-technology to the American economy has launched a fierce debate within American economic circles, both academic and political, over the question of American economic decline and the proper remedy for the situation. This debate has been heavily influenced by the emergence of what has been called the "New International Trade Theory" (NITT) or "Strategic Trade Theory", which argues that comparative advantage is something that is fought for and won, rather than merely inherited. As F.M. Shearer and Richard S. Belous argue:

NITT suggests that a nation can significantly alter its comparative advantage and hence its world trading system. As determinants of comparative advantage, NITT stresses R&D and technology, product life cycles, economies of scale, and the strategies pursued by enterprises possessing oligopoly and monopoly market power. The ability to manipulate these levers, NITT advocates hold, allows a nation to shape and amend their comparative advantage.<sup>190</sup>

There have therefore emerged questions surrounding the American response to the GATT process where high technology goods are concerned.<sup>191</sup> President Clinton is known to be an advocate of the NITT philosophy, as demonstrated by the appointment of Robert Reich to the cabinet and Laura d'Andrea Tyson as the head of the Council of Economic Advisors. However, members of the US Congress who are primarily concerned about job losses as a result of the trade deficit are more likely to want to be seen to be taking action against unfair traders. As such, the Congress seems to be more supportive of what has

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<sup>190</sup> F.M. Scherer and Richard S. Belous, Unfinished Tasks: The New International Trade Theory and the Post-Uruguay Round Challenges, Issues Paper No. 3, (London: British-North America Committee, 1994.), p. 7.

<sup>191</sup> There exists an ongoing and vigorous debate in both academic and political circles in the United States concerning the future prospects of the American economy and its implications for American trade policy. On one side are the NITT advocates who argue that the American trade deficit is the result of the uncompetitiveness of the American economy. This uncompetitiveness is reflective of serious domestic problems in the American economy ranging from the failure of the national education system to the collapse of social welfare, to the need for bureaucratic reform. Advocates of this position suggest that the way to correct these problems is by way of domestic measures that will improve worker productivity, shift production into high wage, high value added, high technology areas, thereby creating its own comparative advantage, much along the line advocated by the NITT school. The alternative line of thought could be called the "relative decline" approach which argues that decline in US global output is reflective of the gradual and expected rise of the defeated post-war economies of Japan and Germany. This approach argues that the US trade deficit is not the result of American economic weakness, but rather the unfair trading practices of other countries that refuse to play by the rules of the game. The way to balance the trade deficit is to punish those states which are branded as unfair traders, and a subsequent shift towards results oriented trade. See for example, Lester Thurow, Head to Head: The Coming Economic Battle Between Japan, Europe and America New York: Warner Books, 1993; Stephen Cohen, "Discussion Dossier on Competitiveness" Paper Prepared for the Trinational Institute on Innovation, Competitiveness and Sustainability, Whistler, BC August 1994; and Paul Krugman, "Competitiveness: A Dangerous Obsession" Foreign Affairs Vol. 73, no.2 (March/April 1994), pp. 28-44.

become results oriented trade.<sup>192</sup> The outcome of this debate has direct implications for Canada, since it is a country dependent on trade, particularly with the United States. A results oriented trade approach seriously weakens the global trading system, including the GATT, since it advocates a 'law of the jungle' approach to international trade as opposed to the rule of law. Widespread use of such trade corrective measures would create an environment where each state would try to browbeat its partners into altering its trade behaviour or face the consequences of threatened action. This would lead to conditions which would be conducive to a breakdown of the trust and confidence necessary to the maintenance of an orderly, predictable trading system.<sup>193</sup> As is widely recognised, Canadian interests reside in a stable and predictable international environment, and any move to replace rule-based trade with unilateral decision-making can only be seen as a negative development from the Canadian perspective.

The question of American competitiveness and large trade deficits in high technology production became an essential, underlying component of a successful UR, not to mention the future of the GATT process itself. As was outlined above, American political leaders were of the perception that the trade deficit was not the result of declining competitiveness, but rather the result of the unfair trading practices of others. This naturally led to questions about the ability of the GATT system to safeguard American trade and economic interests

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<sup>192</sup> Results oriented trade often manifests itself in the form of aggressive unilateralism. Jagdish Bhagwati points out that threats of protectionist retaliation are issues when, in an attempt to secure new concessions or changes in established trade practices, the US perceives and then unilaterally declares that others have failed to meet either multilateral or bilateral treaty obligations. See Jagdish Bhagwati, "The Diminished Giant Syndrome: How Declinism Drives Trade Policy" *Foreign Affairs* Vol. 72, no. 2 (Spring 1993).

<sup>193</sup> Jagdish Bhagwati, "The Diminished Giant Syndrome: How Declinism Drives Trade Policy" *Foreign Affairs* Vol. 72, no. 2 (Spring 1993), p. 25.

particularly as they relate to dispute resolution. If the Americans were to begin to question the utility of the GATT system, such an action would seriously undermine the credibility of the organisation and might lead to paralysis.

The challenge for Canadian negotiators was to develop a defensible position that would strengthen GATT provisions in the area of dispute resolution, and would meet American demands for an improved GATT system that would not be injurious to Canadian export opportunities in the United States. The final agreement mollified American protectionist interests by significantly improving the dispute resolution mechanism. There were two major changes that were of particular interest to the American government. Firstly, was the end to the practice of governments vetoing dispute settlement panel reports. Where previously consensus was required to approve a report, now consensus is required to reject a panel report. Secondly was inclusion of the provision that requires members to implement obligations promptly or face authorized trade action. In the American case, this means action under section 301 of the Trade Act of 1974.<sup>194</sup> The importance of this measure is that it permits the United States to maintain its sovereignty in using US law to deal with identified unfair traders. As well, the UR agreement sets broad guidelines for the use of subsidies in the field of high technology production, especially as they relate to research and development. In particular, it limits government subsidies in technology intensive industries to 50 per cent of applied research outlays, defined as work leading up to the first prototype, and 75 per cent on basic research.<sup>195</sup> The UR agreements related to this area met most of the

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<sup>194</sup> Office of the United States Trade Representative, "Memorandum for the United States Trade Representative", December 15, 1993.

<sup>195</sup> F.M. Scherer, Unfinished Tasks, p. 37.

governments objectives. It established a stronger dispute settlement mechanism which will likely reduce American desires to pursue aggressive unilateralism in its drive to deal with its trade deficit, it shores up American commitment to the multilateral GATT process, and provides the groundwork for future rule making in the field of trade in high technology products.

The UR GATT agreement made significant strides in the advancement of multilateral trade in the fields of agriculture, services, and to a lesser extent, in high technology goods, although the spin-offs from the agreements in this area will go a long way to strengthening the institution of the GATT in the future. From the Canadian perspective this can only be viewed as a positive step. It had been argued that as a country heavily dependent on exports for wealth, Canadian interests in the post-war world have always been served by a well functioning multilateral trade regime that managed to keep the United States engaged as an active participant.<sup>196</sup> From the American perspective, up until most recently US economic and strategic interests have also been well served by an open and non-discriminatory world trading system that generated wealth not only at home but also abroad, which contributed to the American-led international fight against Communism. Yet the nagging question remains as to why the Canadian government, over the past decade, has sought to negotiate bilateral and continental free trade deals with the United States and Mexico, and what this says about the government's commitment to multilateralism as the cornerstone of Canadian foreign and trade policy.

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<sup>196</sup> See Keating, Canada and World Order, pp. 58-64.

The issue of free trade with the United States has a long history in Canada. Between the years 1854 and 1866 Britain on behalf of the colonies of British North America negotiated a reciprocity agreement covering natural resource products such as timber and fish with the United States. Free trade was also a major issue in the election of 1911, and it appeared again in 1948 as Mackenzie King was about to leave office. In its most recent manifestation, the decision to enter free trade negotiations with the United States appears as a repudiation of the GATT and multilateral based trade. But is this really the case? The decision to enter into free trade negotiations was the result of the confluence of three major events which had a direct impact on government decision-making. The first and perhaps most influential event was the economic recession of 1981-82. This recession more than any other that had preceded it, had a major impact on the confidence of the Canadian business and policy elite in the ability of the Canadian economy to meet the challenges of 1980s. The crisis of confidence was so profound mainly because the recession had a deeper and more lasting impact in Canada than in the United States. The response of the federal government to this crisis was two-fold. Firstly, the Trudeau liberal government undertook a comprehensive review of Canadian trade policy which, at its completion, signaled a new policy direction and acknowledged formally the importance of Canadian trade with the United States to the prosperity of Canadians.<sup>197</sup> This marked an important stage in the evolution of Canadian trade policy, since it had been an earlier Trudeau government which launched the third option which sought to reduce Canadian export dependency on the United States. Secondly, the government established the Royal Commission on the Economic Union and Development Prospects for Canada, which recommended

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<sup>197</sup> Department of External Affairs, Trade Policy for the 1980's: A Discussion Paper Ottawa: Supply and Services, 1983.



fundamental changes to Canadian trade and economic policy. One of the most profound recommendations put forward by the Commission advocated that

We Canadians must significantly increase our reliance on market forces, Our proposals to increase our openness to the international economy and, specifically to enter in a free trade arrangement with the United States reflect our general preference for market forces over state intervention through which to generate incentives in the economy, from which growth will follow.<sup>198</sup>

The second major event was the election of a conservative government in 1984. Although it would be difficult to prove that the recommendations of the Macdonald Commission would not have been implemented by a more left-leaning nationalist Liberal government, the election of a more free market oriented government that was more sympathetic to the US certainly did little to hamper the implementation of the Commission's recommendations. The Conservative government led by Brian Mulroney was determined to reshape the political economy of Canada, and to roll back the influence of the government in the economic development of Canada.<sup>199</sup> One of the policy tools the government looked to in order to achieve this end was trade. Thus, the negotiation of a free trade agreement that spelled out definitive limitations on the government's role in economic matters fit nicely into the Conservatives' economic agenda.

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<sup>198</sup> Canada, Report of the Royal Commission on the Economic Union and Development Prospects for Canada, Vol. I (Ottawa: Supply and Services, 1985), p. 66.

<sup>199</sup> G. Bruce Doern and Brian W. Tomlin write that "Critical of existing programs for regional economic development and industrial adjustment, Mulroney and [Michael] Wilson were determined to create a more open market within which business could operate with greater efficiency." See G. Bruce Doern and Brian W. Tomlin, Faith and Fear: The Free Trade Story (Toronto: Stoddart, 1991, p. 31.

The third major event which led the government to pursue free trade negotiations was rising protectionist sentiment in the US congress during the 1980s as a reaction to the rapidly increasing American trade deficit. Both the 1983 trade policy review and the Macdonald Commission report made clear and repeated reference to the importance of continued access to the American market for Canadian prosperity. The Macdonald Commission report stated that " Given that Canada has a close, even trade-dependent, relationship with the United States, we would do well to ensure that our trade policy nurtures industries that can compete in the US market, and which have access unimpeded by US protection."<sup>200</sup> As Gilbert Winham has argued, " The concern for 'secure access' was paramount for Canada [in the FTA negotiations] and was mainly a reaction to the sharp increase in American trade remedy actions (for example, anti-dumping and countervailing duty actions) against Canadian products in the early 1980s."<sup>201</sup> As well, Doern and Tomlin put forth the argument that " ...the free trade initiative was seen in Canada primarily as a means to secure market access and deal with the problem of American protectionism..."<sup>202</sup>

It can be argued that the free trade agreement was negotiated to remedy two problems that were identified as having a major impact on the future well-being of the Canadian economy. The first problem was to improve efficiency and productivity in the Canadian economy by allowing market forces to play a greater role in the economy, with the end result being the development of a more internationally competitive economy. The second problem was a recognition

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<sup>200</sup> Canada, Report of the Royal Commission on the Economic Union and Development Prospects for Canada, Vol. I (Ottawa: Supply and Services, 1985), p. 263.

<sup>201</sup> Gilbert Winham, " NAFTA and the Trade Policy Revolution of the 1980's: A Canadian Perspective" International Journal Vol. XLIX, no. 3, (Summer 1994), pp. 479-480.

<sup>202</sup> Doern and Tomlin, Faith and Fear, p. 285.

that the markets of the United States are a major contributor to Canadian prosperity and that maintenance of assured access to those markets was the path to the continued prosperity of Canadians. With an understanding of why Canada acted in the case of CAFTA, it is necessary to now address the question of why the Canadian government sought to participate in the NAFTA negotiations.

The decision to enter the NAFTA negotiations was not so much a decision to advance Canadian trade interests, as it was to protect Canadian interests. The Mexican government proposed free trade negotiations with the United States much for the same reasons the Canadian government had done in 1985: as a reaction to the reality of heavy trade dependence with the United States and to use trade policy as a way to modernize the Mexican economy. As well, the Mexican decision to seek a free trade agreement with the United States was influenced by the previously negotiated Canada-US Free Trade agreement which was giving Canadian goods a distinct advantage over Mexican goods in the US market, and secondly by Mexico's need for foreign investment which was needed to help modernize the economy. The Canadian government sought to join the Mexico-United States negotiations, not out of concern over Canadian-Mexican trade, but rather out of concern over the impact of the United States-Mexican trade deal on the Canadian relationship with the United States. In particular, the Canadian government was anxious to avoid the development of a 'hub-and-spoke' system of trade agreements around the United States.<sup>203</sup>

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<sup>203</sup> See Ronald J. Wonnacott, US Hub and Spoke Bilaterals and the Multilateral Trading System, Commentary 23, Toronto: C.D. Howe Institute, October 1990, and Richard G. Lipsey, Canada at the US-Mexico Free Trade Dance: Wallflower or Partner? Commentary 20, Toronto: C.D. Howe Institute, August 1990; and Gilbert R. Winham, "NAFTA and the Trade Policy Revolution of the 1980's: A Canadian Perspective" International Journal Vol. XLIX, no. 3 (Summer 1994) pp. 492-496.

While the impact that a hub-and-spoke system would have on Canadian export interests was important, it soon became overshadowed by Canadian fears about the impact such a hub-and-spoke would have on investment in Canada. Specifically, the government feared it would make Canada appear less attractive as a place to invest in any sort of trade related enterprise. The automotive industry provides an excellent example of this concern. If an auto maker were considering an investment in North America to take advantage of the three markets, logic would dictate that the plant be located in the United States. If it were located in Canada, it would only have duty-free access to the United States, which would also be true if it were located in Mexico. Therefore, the United States would clearly be the more attractive location for investment, thereby draining investment away from Canada. Furthermore, because of the tariff preferences Canada gives to developing countries, the pre-NAFTA tariffs faced by auto imports into Canada from Mexico were substantially lower than those faced by Canadian exports to Mexico. Thus, under a hub-and-spoke, system Canada would be the least attractive location for investment in an industry that is critical to Canadian economic prosperity.<sup>204</sup>

The Canadian decision to enter the NAFTA negotiations was premised on a set of assumptions that varied greatly from the decision to seek a bilateral deal with the United States. CAFTA represented a significant break in historical trade policy in an attempt to use trade policy to achieve a fundamental restructuring of the Canadian economic state.<sup>205</sup> The NAFTA decision was motivated primarily by a set of external factors which the Canadian government had to react to in

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<sup>204</sup> Gilbert Winham, "Canada and the Trade Policy Revolution of the 1980's", pp. 495-496.

<sup>205</sup> Gilbert Winham, "Canada and the Trade Policy Revolution of the 1980's", p. 493.

order to protect Canadian interests and gains which resulted from the CAFTA. As Gilbert Winham has argued, "In short, the FTA was a domestic policy, the NAFTA was a foreign policy".<sup>206</sup>

What then does the Canadian decision to enter into CAFTA and NAFTA say about the government's commitment to multilateral-based international trade under the GATT? Firstly, in official declarations, the Canadian government has consistently reasserted its commitment to rule-based multilateralism as a cornerstone of foreign policy. This was most recently reaffirmed in the 1995 Foreign Policy Statement which stated that:

Trade reliant countries, such as Canada, lead in the creation of a system of international rules to govern the collective behaviour of states because they see binding rules as providing the best basis for the widest cooperation and for protection against unilateralism.<sup>207</sup>

As well, the Special Joint Parliamentary Committee which examined Canadian foreign policy also recognized the importance of multilateralism to Canadian foreign policy. The Committee recognized that:

...[Canadians] should be asking [themselves] whether this hemisphere is, or should be the limit of Canada's vision... Canada has also had important transatlantic and transpacific interests - economic, political, and security interests - as well as global interests which can only be served by being actively engaged in those other environments. It would not be consistent with those interests if Canada allowed itself to be confined to North America, or saw the world as divided into rival blocs. Canada must therefore try to reconcile its new vocation in the western hemisphere

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<sup>206</sup> Gilbert Winham, "Canada and the Trade Policy Revolution of the 1980's", p. 493.

<sup>207</sup> Canada, Department of External Affairs, Canada in the World (Ottawa: Public Works and Government Services, 1995), 5.

by redoubling its efforts to build bridges between continents.<sup>208</sup>

Official government policy appears to be firmly committed to the philosophy of multilateralism as the foundation of Canadian foreign policy, which would seem to imply continued support for the GATT/WTO as the architecture for the international trade system.<sup>209</sup>

Although this public support for the GATT/WTO sheds some light on future policy options with respect to international trade, it does not explain how the government is able to reconcile the major trade policy decisions of the past 10 years. Undeniably, the greatest single impact on Canadian trade policy has to be the trade relationship with the United States. As Table 4.15 demonstrates, as of November 1994, 79.5 per cent of all Canadian exports were destined for the United States. Broken down by commodity group, Canada has an extreme export dependence (more than 90 per cent) in the fields of transportation equipment and miscellaneous manufactured goods, as well a slightly less extreme (between 80 and 90 per cent) export dependence in the fields of mineral products, textiles, base metals, and consumer goods. What is perhaps even more worrisome, is that the fields of transportation equipment (94.5 per cent), which includes such industries as aerospace, aviation, automobiles and urban transit equipment, and the miscellaneous manufactures (90.8 per cent) which

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<sup>208</sup> Canada, Report of the Special Joint Committee Reviewing Canadian Foreign Policy, Canada's Foreign Policy: Principles and Priorities for the Future (Ottawa: Public Works and Government Services, 1994), p. 78.

<sup>209</sup> This support for the GATT/WTO is affirmed in the Foreign Policy statement which states that "The WTO extends international rules much more comprehensively than before. The new rules will now cover trade in goods (including formerly largely excluded sectors such as agriculture as well as textiles and clothing) and services. The new rules also constitute important first steps to underpin fair competition for direct investments. They provide considerably more effective mechanisms to resolve disputes through the rule of law rather than the exercise of unilateral market power."

includes telecommunications equipment such as switches and telephones) represent the leading high technology sectors of the Canadian economy.<sup>210</sup> These will be the sectors which will lead the Canadian economy in growth into the next century. Thus in terms of national economic security, the Canadian government will have to take measures to either diversify its export markets for these goods, or will have to ensure that continued access to the American market is not obstructed.

The Canadian government has recognized the importance of high technology to the continued prosperity of Canadians. The Foreign Policy statement recognized that full Canadian participation in the knowledge-intensive economy is vital. To that end, the government has pledged that the Department of Foreign Affairs and International Trade will introduce small and medium sized Canadian enterprises to international investment partners as sources of capital, technologies, management skills and access to markets. The government has also indicated that it will develop initiatives to facilitate greater access to and acquisition of international technologies by Canadian firms.<sup>211</sup> The aim of the government is to ensure that Canadian firms remain competitive in international markets and in new growth industries into the next century.

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<sup>210</sup> John Alic of the United States Congress' Office of Technology Assessment, has written that "the strengths of Canada's innovation system include first-rate universities and research laboratories, along with a considerable range of niches in sectors including telecommunications hardware, aerospace, mining equipment, pulp, paper, and printing machinery, and biotechnology...Policy debates [surrounding the role of high technology] have tended to oscillate between two poles. One pole reflects a desire to encourage independent technology development as a means of breaking with Canada's branch plant heritage. Those clustered around the other pole, seeing the country's greatest strengths in its natural resource base, argue for policies that would complement Canada's existing niches primarily through development of new technologies linked with that resource base." See John A. Alic, "The North American System of Innovation in a Global Context" Paper prepared for the Trinational Institute on Innovation, Competitiveness and Sustainability, Whistler, BC, August 1994.

<sup>211</sup> Department of External Affairs, Canada in the World, p. 22.

The reality of having over 80 per cent of high technology and future growth exports concentrated in the American market means that particular caution and care is needed in the management of the American relationship. As the government has stated,

Canada's economic relationship with the United States remains the most complex and substantial among any two countries in the world...As such, good management of that relationship is our overriding priority. Much of what we do bilaterally, regionally and internationally, relates directly to the management of that special relationship.<sup>212</sup>

Hence it is now possible to find the predominant (among many) influences on the evolution of Canadian trade policy over the past 10 years. CAFTA was a domestically-driven attempt to achieve two goals: one was to alter the role of the federal government in the development of the Canadian economy, the second was to secure access to the single largest market for future Canadian exports. NAFTA, meantime, was a foreign policy decision determined by external actions which necessitated government action to protect Canadian interests. Neither of these two actions appear to diminish the government's commitment to the GATT/WTO or rules-based international trade. CAFTA and NAFTA are not repudiations of the international trading system, but rather a reaction to the "realpolitik" of the Canadian trade environment. Perhaps the Special Joint Committee which reviewed Canadian foreign policy put it best when it argued that:

We believe that these goals [shared security, shared prosperity, and shared custody of the environment] can only be achieved in concert with others and within the framework of an international system based on rules rather than power. It should therefore be a primary objective of the Canadian foreign policy to

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<sup>212</sup> Department of External Affairs, Canada in the World, p. 15.



help develop rule based regimes in areas of concern to Canada. For this purpose, we suggest several strategies. One is to “multilateralize” our relations with the United States, dealing with our neighbour in multilateral forums wherever possible, and using the latter to blunt US unilateral policies. Another is “directed multilateralism”, which involves a multi-track approach (bilateral, regional and multilateral) aimed at improving the effectiveness of key international institutions. Still another is to build bridges across continents, and for this purpose to seek strategic partnerships with key countries in other regions.<sup>213</sup>

## CONCLUSION

At the end of World War II, the main objective of Canadian trade policy was to build upon and expand the trade patterns that had developed during the war. That meant working to prevent a return to the ‘beggar thy neighbour’ approach that had come to dominate the 1930s. Achieving this objective involved a number of policy choices. However, foremost among the political and bureaucratic decision makers at the time was the establishment of a rule-based, non-discriminatory multilateral world trading system. Given Canadian dependence on world trade for economic prosperity, the establishment of such a world trading system was essential. Such a system would first make international trade more transparent, and would reduce the possibility of a return to 1930s style trade. Secondly, it would help to bring the United States more fully into the world economic system and make sure it remained there. While there were always protectionist and isolationist sentiments in the US Congress, it should be recalled that the Americans had their own reasons for remaining as participants in the post-war political economy. For the most part, the Americans

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<sup>213</sup> Report of the Special Joint Committee Reviewing Canadian Foreign Policy, Canada's Foreign Policy: Principles and Priorities for the Future, p. 2.

were of the belief that multilateralism was the quickest way to help rebuild the economies of Europe, to foster integration among the states of Europe, and most of all to prevent future conflict.

At the end of the war, the Canadian government viewed multilateralism in world trade mainly in the context of the North Atlantic triangle. Prior to and during the war, this three way relationship had helped Canada develop a modern and prosperous economy. However, the end of the war did not see a return to Sterling convertibility, and with the cancellation of the programs designed to relieve many of the problems caused by the war-time inconvertibility of the pound, the Canadian government looked to multilateralism under the GATT/ITO as a solution to its trade problems. However, the failure of the United States to ratify the ITO Charter, and the concurrent failure of the GATT negotiating sessions at Torquay and Annecy, proved to be difficult challenges for the governments of Mackenzie King and Louis St. Laurent. Currency non-convertibility and liberal use of the GATT's exemption clauses drove the King and St. Laurent governments to seek a closer economic association with the United States, because only the American economy was strong enough and rich enough to absorb the levels of exports necessary to maintain the standard of living expected by Canadians. Thus, it is possible to characterize post-war trade policy as multilateral by preference or philosophy, and bilateral by necessity. The important element to keep in mind is that while the Canadian government may have been a strong supporter of multilateralism in international trade, it was not above seeking out bilateral deals whenever the government might have felt Canadian trade interest warranted such a deviation. The governments of both King and St. Laurent may have been strong advocates of multilateralism, but they were also realists and pragmatists, not ideologues.

Throughout the post-war and Cold War years, the Canadian trade relationship with the United States continued to deepen to the point where Canadian exporters, for all intents and purposes, were dependent on the American market. By 1985, which marked both the beginning of the end of the Cold War and the start of Canada-US free trade negotiations, 77.9 per cent of all Canadian exports were headed to the United States. At the same time the Canadian economy had just weathered the worst economic downturn since the Depression, which revealed a fundamental weakness in productivity and competitiveness within the economy. Combined with the fact that between 80 and 90 per cent of Canadian high technology exports, which represent the future growth potential for the economy, were headed to a single market, the government initiated a concerted effort to revamp the Canadian economy by way of export policy through the pursuit of a free trade agreement with the United States. Although perhaps a politically unpopular decision which opened the country to an intense and divisive national debate, the reality of the Canadian economic situation demanded that radical action such as this needed to be taken.

Was the negotiation of the CAFTA and, subsequent to that, the NAFTA a rejection of the Canadian government's long-standing commitment to the GATT? There were recognized problems with the GATT, most notably in the fields of agriculture where there was liberal use of the opt out provisions by most of the developed world, and in textiles where the multifibre agreement was subject to general condemnation by the developing world, not to mention that the GATT had yet to deal with the international trade in services which represented the

fastest growing segment of the international economy. However, the GATT was still held in high regard by most of the government and business elite.

The business community in Canada viewed the UR in generally positive terms. They believed that the UR went some way towards opening European and Asian markets to Canadian goods and services, and it made modest progress towards stronger disciplines on some kinds of non-tariff barriers. However, the business community tended to view the GATT as perhaps not the most effective forum in which to pursue future Canadian commercial interests.<sup>214</sup> Within the GATT, Canadian influence is perceived as modest and the large number and diversity of GATT members makes negotiations exceptionally time-consuming and cumbersome. As well, as an institution, the GATT is slow to address new issues, and its dispute settlement mechanism is less effective than that created by the NAFTA. As a result, the business community has come to look upon the GATT as providing the "system architecture or framework of principles" that can help to structure and discipline the complex amalgam of regional trade agreements, regulatory codes, and functional/sectoral arrangements that constitute the international trading system.<sup>215</sup>

The current Canadian government position on the GATT tends to reflect many of the same sentiments as the business community. The 1995 Foreign Policy Statement describes the GATT as an overarching framework which structures the international trading system. Under this structure, states are free to pursue goals and objectives that are either not under consideration by the

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<sup>214</sup> See Jock A. Finlayson, "Directions for Canadian Trade Policy: A Private Sector View" *Canadian Foreign Policy* Vol. 1, no. 3, (Fall 1993), p. 119.

<sup>215</sup> Finlayson, "Directions for Canadian Trade Policy", p. 119.

larger organisation, or are perhaps too issue specific to be dealt with adequately at the global level. It is possible therefore to identify here a definite similarity to post-war Canadian trade policy. In both instances Canadian governments were strong advocates of a non-discriminatory, rules-based international trade system, but at the same time the governments were willing to act in concert with Canada's closest economic partners to protect national interests when the multilateral option failed.

What insights do the policy comparisons of 1945-55 and 1985-95 shed on the question of multilateralism and structural change in the international environment? At a very superficial level, it might be tempting to suggest that, in light of the Canadian government's decision to enter into a comprehensive free trade agreement with the United States and then a regional trade agreement with the United States and Mexico, the Canadian government had turned its back on multilateralism. However, closer examination of Canadian trade policy in the years 1945-55 shows that while the Canadian government was firmly committed to the idea of multilateralism in international trade, it was not beyond the government to seek to protect its economic interests by pursuing a closer economic relationship with the United States when the multilateral GATT system could not produce the necessary protection or insurance against economic catastrophe. Similarly, in the years 1985-95, the Canadian government also professed a strong commitment to the idea of rules-based multilateralism in world trade, but as both the CAFTA and NAFTA agreements clearly demonstrate, the government is not averse to pursuing either bilateral or regional associations when national interests dictate.

The structural change which occurred between the years 1989 and 1991 seems to have had little if any effect on the trade policy principles of the Canadian government. As well, one might go so far as to argue that the end of the Cold War was not a major turning point in Canada's trade multilateralism policy. The main reason for this it can be argued is that the Soviet Union was not a member of the GATT and the Soviet Bloc, despite its military strength accounted for a small percentage of global trade. However, the end of the Cold War has had an impact on the nature of global trade. With the decline in international tension came a "weakening" of the bonds of what might be termed the 'Western Alliance' which then has led to greater divisions among the US, EU, and Japan on economic issues. However, despite this, and perhaps even in response to this, multilateralism appears to still be the cornerstone of Canadian trade policy, and the government appears to view multilateralism as the overarching structural framework for the development of a global international trade environment. The government's embrace of bilateral and regional trade deals can be seen primarily as an attempt to achieve domestic economic goals through trade policy. Multilateralism as a foreign policy principle in the area of international trade appears to be an enduring approach to meeting the broadly defined goals and objectives of Canadian foreign policy. Systemic change seems to have altered very little in this regard.

## CHAPTER FIVE

### CONCLUSION

This study began by considering the question of what impact the end of the Cold War might have on the future of Canadian foreign policy. More specifically, it sought to determine what impact the end of the Cold War might have on multilateralism as a cornerstone of Canadian foreign policy. These questions are premised on the understanding that the end of the Cold War, which brought about a shift in the structure of the international system, would have some impact on the orientation of a state's foreign policy. In the case of Canada, it would seem reasonable that an appropriate test of the theory would be to examine the impact of the end of the Cold War on the Canadian commitment to multilateralism. As an enduring feature of Canadian foreign policy over the past 50 years, multilateralism has come to be regarded as almost synonymous with post-war Canadian foreign policy. Thus it seems reasonable to ask whether this will continue to be a persistent feature in the post-Cold War.

The approach used in this study compares the development of Canadian foreign policy in the early post-war years when the bi-polar world had just emerged, with the development of foreign policy in the early years of the post-Cold War just as a new systemic structure was emerging. The use of this approach permits comparisons to be made between the impact of the emergent bi-polar system and the emerging post-Cold War system on multilateralism as a major component of Canadian foreign policy. A core assumption of this approach is that it was the structural shift brought on by the outcome of World War II that permitted multilateralism to emerge as a method used to deal with the problem of international conflict. That core assumption is then brought forward

and applied to the post-Cold War. The basic question of this study now becomes: if multilateralism emerged and evolved in a tight bi-polar post-war system, what impact will the structural shift of 1989-91 have on multilateralism as an approach to dealing with international conflict in the post-Cold War? In the end this approach should make it possible to draw some conclusions about the core assumption that structural change has an impact on the foreign policy of states.

Multilateralism, by its very nature, is co-operative. That is to say, there are few if any multilateral institutions designed to facilitate conflict. Thus, any study that seeks to examine multilateralism, actually seeks to examine the phenomenon of co-operation in international relations. Realism, neorealism, liberalism, and neoliberal institutionalism have all attempted with varying degrees of success to explain this phenomenon. Both realism and neorealism view co-operation in the context of power relations, and as the result of balance of power coalitions designed to ensure stability in the international system. Liberals understand co-operation as flowing naturally from the nature of the international system. Using a macro-economic analogy, liberals view international relations as similar to economic relations in a laissez-faire economy. Unlike realists and neorealists who view an anarchical setting as being conflictual, liberals view it as being co-operative as each side recognises and understands the costs of conflict. Neoliberal institutionalism, building on the foundation established by both liberals and neorealists, have argued that the anarchic nature of the international system produces conflict, not harmony, and that co-operation exists and is influenced by the existence of international institutions. From neoliberalism has emerged what might be referred to as theoretical multilateralism which sought to further refine the neoliberal



understanding of the role of multilateral institutions. Theoretical multilateralism's contribution to international relations theory is the development of the notion of the institution of multilateralism. This is a qualitative assessment of international institutions which is significantly different from the nominal definition of multilateral institutions. The institution of multilateralism is understood as being bounded by three properties: indivisibility, generalised principles of conduct and diffuse reciprocity, while the nominal understanding of a multilateral institution concentrates on the idea of a multilateral institution as a formalised entity which has an established and agreed-to set of rules which alters the behaviour patterns of three or more states.

This understanding of the various approaches to co-operation in international relations is fundamental to understanding the question of why states in the post-war years chose multilateralism as an approach to solving the problem of conflict in international politics. Out of the ruin of World War II, it had become apparent that the United States and the Soviet Union would emerge as the dominant states in the international system. From a Western perspective, the main threat to the stability of the international system was from political, as opposed to military, provocation by the Soviet Union in Western Europe. This perception was one that was held by the policy elite at the Department of External Affairs who believed the threat from the Soviet Union was primarily political and not military. That is, the greatest threat to Western Europe was from the electoral success of Soviet sponsored Communist parties, whose success would come as a result of the economic dislocations associated with the end of the war. The best way to ensure that this did not happen was to encourage the fastest economic recovery possible in Western Europe, with

special emphasis placed on France and Italy where electoral success by the Communist Party seemed most possible.

From the Canadian perspective, the goals of Canadian foreign policy were more or less in line with those of the United States and the states of Western Europe. The government viewed Canadian security as being directly related to the security of Western Europe. This was reflective of the economic reality of being a country dependent to a high degree on exports for its economic prosperity, a large portion of which, prior to the war, had gone to the United Kingdom and the states of Western Europe. If these states were to fall into the Soviet sphere of influence, a substantial market for Canadian goods would be eliminated which would have a devastating impact on Canadians. The strong historical and cultural ties that Canada, as a former British colony with a substantial French minority had with the United Kingdom and Western Europe would be threatened.

A second and no less important influence on the development of post-war Canadian foreign policy was a general sense of uneasiness regarding the role of the United States in the post-war world. The Canadian government expressed at that time a certain amount of anxiety regarding the new American hegemony and its ability to manage global politics in a consistent manner that recognised the interests of the other states in the system. The policy elite at External Affairs were primarily wary of the United States on two fronts. They were first concerned with America's historical propensity towards isolationism, and secondly with American unilateral actions vis-à-vis the Soviet Union. On the question of an American return to isolationism, the Canadians had to deal with a major ally which seemed to suffer from a multiple personality disorder.

With respect to what was then considered global strategic questions in the North Atlantic, there was genuine concern that the United States, while not retreating into isolationism in the inter-war context, would return to a form of isolation where it would be free to deal with the Soviet Union unilaterally, without the cumbersome necessity of having to consider the interests of Canada and the states of Western Europe. The Americans were hard pressed to be convinced that a multilateral regional security arrangement was the best way to protect the states of the North Atlantic from the Soviet threat and at the same time safeguard American interests. The creation of NATO was, as a result, an arduous journey that required the utmost skill and tact of the policy elite to convince the United States that such an organisation was in fact in their own best interests. In the arena of global economic relations, the United States, at least during the post-war planning stage and early post-war years, was generally supportive of a global, multilateral economic regime which is reflected in their support for the Bretton Woods institutions of the International Monetary Fund, the World Bank and the GATT/ITO. American support for these institutions reflects their belief that multilateral economic co-operation represented the quickest way to reverse the economic dislocations of the war and thus contribute to the fight against the Soviet political threat in Western Europe.

In both the GATT and NATO, it is possible to detect the elements of what has been termed the institution of multilateralism. Recalling that the institution of multilateralism as an architectural form consists of three properties: indivisibility, generalised principles of conduct and diffuse reciprocity. Indivisibility is the geographic and functional scope across which costs and benefits are distributed. For example, in economic multilateralism, all states are affected by recession

and in strategic multilateralism, peace is considered to be indivisible. Generalised principles of conduct is understood as norms or the expected behaviour of states across a variety of issue areas rather than responses developed case-by-case as determined by particular interests and specific solutions. Diffuse reciprocity means that states do not expect a direct tit-for-tat or quid pro quo for each concession or altered pattern of behaviour. Rather, states adjust their time horizons to the long term and settle for generally equal benefits over the long run and over a variety of issue areas.

In the case of NATO it is possible to recognise each of these three elements as a major feature of the post-war security agreement. Obviously, the states that make up NATO each recognised that their security was closely linked. If either France or Italy were to fall into the Soviet sphere of influence such an event would have a direct and immediate impact on not only its immediate neighbours but also on the entire North Atlantic area. Thus the security of France, Italy and to a lesser degree Britain - since the threat of the Communist Party in the UK was considered to be somewhat weaker - became the security of Western Europe and North America. The Washington Treaty of 1949, which established the North Atlantic Treaty Organisation has as its basis a set of generalised principles of conduct. Based on the indivisibility of security in the North Atlantic area, the Washington Treaty set forth that an attack against one is an attack against all. The Treaty commits each of the signatories to come to the aid of the state which has been the victim of aggression. Thus each state cannot on its own decide, based on the specific situation whether or not it has been attacked, and must therefore respond to the act of aggression. In the case of diffuse reciprocity, NATO established a security regime that recognised in the formative years a disproportionate burden would be carried by the United States,

but that over the long term the nature of the organisation would contribute to the stability of the international system and reduce the potential for future conflict.

In the case of the GATT, it is also possible to identify these elements of the institution of multilateralism. With respect to indivisibility, the GATT was intended to prevent a return to the discriminatory and highly disruptive trade practices of the 1930s. This was in recognition of the fact that world trade was a global phenomenon, and that any disruption of world trade patterns, as the decade of the 1930s demonstrated, had an impact on all the members of the global trading community. As for the establishment of generalised patterns of conduct the GATT system set out specific conditions for the conduct of international trade, that all members had to ascribe to and follow in order to be members. In this way GATT ensured that international trade was stable, and most of all the the behaviour of members states became predictable. This is closely related to the diffuse reciprocity that the GATT system established. In return for agreeing to the establishment of international rules governing trade and the subsequent reduction in formal state sovereignty that went with it, the members of the GATT expected a growth in the volume of global trade over the long term that was the result of not only negotiated agreements, but also of the confidence that was created by the system of rules. Here states had to adjust their time horizons to the long term, as the results from the GATT would not be felt immediately, but rather in the decades following the end of the war as the economies of Western Europe recovered. Long term benefits also were expected from the stability that the GATT system would bring to international trade. In return for giving up some authority in the area of international trade policy, members of the GATT received a stable, predictable and growing global trade system.

In response to this emergence of the institution of multilateralism, the Canadian government became a strong advocate of multilateralism in the post-war world. It seemed clear that Canadian interests with respect to international security and international trade were protected by the establishment of a rule-based multilateral international system. In the context of an emerging and still somewhat unpredictable bi-polar post-war international order, multilateralism appeared to provide the kind of stability necessary for the Canadian government to pursue its interests and the interests of its constituents. Multilateralism not only set out a framework under which international security and trade relations would operate, but it also established a set of constraints or borders for the two emerging superpowers. A united common front in Western Europe and North America would prove to be an effective deterrent to Soviet political and military ambitions in Western Europe. As well, multilateralism proved to be an effective counterweight to American unilateralism in its own dealings with the Soviet Union. The fact that the United States was still learning how to be a global military and economic power made both the Soviet Union and the North Atlantic allies a little uneasy. Both NATO and GATT, as institutions of multilateralism, helped ensure the United States would remain an active member of the international community and would limit its tendency to go off on a unilateral course by forcing it to at least consider the impact of its decisions on its partners in light of its treaty commitments.

The end of the Cold War has ushered in a period of questioning and re-evaluation of many of the assumptions about the international system that guided the development of international political thought. Much of what is thought to be understood about international politics was conceived of and

heavily influenced by the Cold War, and with its end it seems natural that questions should arise about the existing body of literature's authority to guide future thinking. Chapter Two explored and synthesised the evolution of thinking on co-operation in international relations literature. From realism to neoliberal institutionalism to multilateralism, thinking on the phenomenon of co-operation in international politics has been extremely dynamic and insightful. With respect to multilateralism, it has led to the emergence of an analytical framework for understanding the development of multilateral institutions. As was outlined above, the institution of multilateralism has provided a helpful framework for understanding the development of multilateralism as a cornerstone of Canadian foreign policy in a global context. But the true test of multilateralism's mettle is whether it can withstand a significant change in the systemic structure and still be able to provide a suitable framework for analysis.

The Canadian decision to enter NATO and the GATT is, in historical hindsight, rather straightforward and is clearly reflective of Canadian interests at the time. With the end of the Cold War, it is now necessary to ask whether Canadian interests are still served by pursuing a multilateralist-oriented foreign policy. One way of answering this question is to relate the three properties of the institution of multilateralism to Canadian interests in the post-Cold War system. If indivisibility, principles of conduct and diffuse reciprocity are still relevant to Canadian interests, then it will be possible to conclude that multilateralism will continue to play an important role in post-Cold War Canadian foreign policy.

When the Canadian government made the decision after WW II to embrace an internationalist, multilateral foreign policy, the major threats to

Canadian interests were closely linked and consisted chiefly of three elements. The first was to constrain Soviet political and later military gains in Western Europe, secondly to establish constraints on the United States while it learned to be a global power, and thirdly to contribute to the reconstruction of the global, and more specifically the British economy in order to protect an important export market. In the post-Cold War these three elements no longer maintain the relevancy they once did and have been replaced by a number of new and equally important issues. In the field of security relations, the political and economic instability in Russia, the former Soviet Union and Eastern Europe cannot be underestimated. Nor can one underestimate the rise of nationalism in these same areas, which is in many cases the direct result of economic instability. As well, the question of rogue nuclear weapons left over from the former Soviet Union is clearly of concern to Canadian interests. With respect to international economic and trade questions, as a trading nation Canadian interests remain with an open and free world trade system based on multilateral non-discrimination. The economies of the United Kingdom and the European Union no longer hold the same importance to Canadians, and of course the threat of hostile, ideologically opposed states attempting to extend influence into Western Europe is extremely remote at worst. However, in a world of market driven interdependence, the reverberations from economic instability will affect all.

With respect to NATO and the question of North Atlantic security the indivisibility of security is still a major concern to the Canadian government. North Atlantic security no longer means containing Soviet political and military advances, but rather has emerged into a more complicated matter that involves taking measures to ensure that the former communist states of the Warsaw



Treaty Organisation and the former Soviet Union, including the Russian Federation, do not slip backward in their pursuit of market-based economies. North Atlantic security now means providing a stable framework within which the states of Eastern Europe and the former Soviet Union can feel secure in the pursuit of their economic objectives and have a forum to work out differences. Canadian participation in the North Atlantic Co-operation Council and the Partnership for Peace programs is a clear indication that the government still views Canadian security as being indivisible from Europe. In terms of generalised principles of behaviour, NATO still serves the function of co-ordinating members' actions in response to international crises. The United States, as a strong supporter of the Bosnian government in the conflict in the former Yugoslavia, pressed for NATO air strikes against Serbian positions in retaliation for Serbian aggression. Other NATO members with UN peacekeeping forces in the region were able to dissuade the US from launching air attacks. Although it would be difficult to prove that the United States would not have gone ahead with air strikes without the input of NATO, the role that NATO played in moderating the behaviour of the United States is clear. Finally, with respect to the issue of diffuse reciprocity, NATO still provides long-term benefits for all its members in terms of its ability to project stability eastward. In each case, Canadian interests are protected by the presence of a functioning NATO.

Indivisibility and international trade is still a major feature of the post-Cold War GATT/WTO system. While the end of the Cold War did not have a direct impact on questions surrounding the global trade order, that is, the collapse of the Soviet Union did not fundamentally alter the major GATT issues, it did have a profound impact on the GATT system. In the post-Cold War, economic

security is still indivisible. Recession in one country will still have a reverberating affect in many others. From the Canadian perspective, the GATT system is still essential to Canadian economic interests. Access to global markets for not only traditional Canadian exports, but also for exports of services and high technology, and high value added manufactures is essential to the continuing prosperity of Canadians. A healthy and expanding global economy means a healthy and expanding Canadian economy as well. With respect to generalised principles of conduct, the GATT/WTO still set the rules of acceptable behaviour of international trade. As a trading nation, it serves Canadian interests to have a rules-based trade regime that is transparent and predictable. The fact that the GATT had extended this to trade in services, agricultural goods and high technology goods bodes well for the future prosperity of Canadians. And finally in the field of diffuse reciprocity, the Canadian government had not abandoned its long-term view of GATT benefits. This is clearly indicated in the government's decision to support the GATT agreement on agricultural trade.

What, then, does all this mean? What impact has the end of the Cold War had on the Canadian commitment to multilateralism in its foreign policy? Is structural change a sound indicator of a shift in foreign policy? Is there anything after multilateralism? The end of the Cold War had a definite impact on Canadian foreign policy. However, it did not substantially affect the government's commitment to multilateralism as a major element of foreign policy. As discovered with respect to both NATO and GATT, the reasons for continued participation has changed but the rationale for multilateral membership has not. Canadian security and economic interests are still served by the institution of multilateralism. It appears that while the structural shift of 1989-91 was a major

event in the modern history of international relations, and it had a definite impact on the foreign policy of the two superpowers towards each other, it cannot be stated with any degree of confidence that structural change is a good variable for predicting foreign policy shifts in states.

As for the more philosophical question of whether there is anything after multilateralism, it might cause one to consider the question of whether multilateralism is the 'end of history'. Hegel wrote in Reason and History that if history is the self development of spirit, the actualisation of the divine idea or of a cosmic plan, then the historical man must be one in whom the potentialities of the time and the historical situation concentrate themselves. At the end of the historical process, when the spirit has fully realised itself, stands a global state of universal reason, of all mankind. In it the absolute idea would be fulfilled, and historical and spiritual greatness coincide.<sup>216</sup> Is multilateralism then the great historical man in the Hegelian sense? Is multilateralism the place where the spirit and the idea coincide? Is multilateralism the end of history? Probably not, but it forces one to pause and consider that if such a monumental event in the history of the world as the end of the Cold War does not significantly alter a state's commitment to this idea, what would?

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<sup>216</sup> G. W. F. Hegel, G. W. F. Hegel, Reason in History: A General Introduction to the Philosophy of History (Trans.) Robert S. Hartmen, (Indianapolis: Bobbs-Merrill, 1983), pp. xiii-xiv.

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