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# Vision

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**Where Is The World Going?  
How Do We Get There First?**

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# Canadian Realism

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President Trump's comments on the U.S.'s relationship with Canada, principally related to the likely renegotiation of NAFTA, suggests a shift in the U.S.'s relationship with an important ally and partner on matters spanning trade to security. Therefore, as CEOs evaluate their companies' existing and future economic ties to or operations in Canada, it is critical to first understand recent Canadian domestic developments under Prime Minister Trudeau. This piece will outline the recent evolution of Canadian public policy, both domestically and internationally, through a brief analysis of the Trudeau government's approach to governance, trade, the economy and foreign affairs.

In the short term, Canada's prospects for prosperity, and Mr. Trudeau's legacy as Prime Minister, will prove inextricably linked to his success in addressing the NAFTA negotiations and a pipeline imbroglio in British Columbia. Although Mr. Trudeau has a substantial parliamentary majority and seemingly unlimited capacity to deliver in Parliament, he has yet to articulate, comprehensively, an overarching vision for Canada in the long term and how he will address these two immediate challenges in the short term.

## **Foreign Policy & Trade: Canada & North America**

Any discussion of Canada's foreign and trade policies must take into account the performance and policy objectives of America's President, Donald J. Trump. During the first six months of his presidency, President Trump has altered many conventional views about America's role in the world, including its relationship with its neighbors. Consequently, Prime Minister Trudeau and several prominent ministers are faced with the all-consuming task of managing foreign relations with the new American administration.

During their first in-person meeting, Prime Minister Trudeau and President Trump appeared to get on well. However, the President's subsequent harsh rhetoric directed at NAFTA, which he defined as "the worst trade deal ever," introduced a new dynamic. Although Prime Minister Trudeau and Mexico's President Pena convinced President Trump not to withdraw from NAFTA, nagging trade problems between Canada and the U.S. persist. The renegotiation of NAFTA is a key priority for Canada. If the negotiations focus on "modernizing" NAFTA, incorporating many fundamental elements of digital commerce and services agreed in the Trans Pacific Partnership, all stakeholders could reach a timely consensus. And yet, would such an agreement and renegotiation be sufficient to satisfy President Trump's electoral base, which has generally been supportive of President Trump's criticism of NAFTA? If negotiations begin to focus on polarizing provisions related to "Buy America" and "Rules of Origin," discussions could easily become protracted. A fundamental obstacle to negotiations remains: Trump, Trudeau and Pena lack consensus around what they can expect to achieve.

If President Trump succeeds in executing on aspects of his economic reform agenda, Prime Minister Trudeau could feel obliged to recalibrate aspects of Canada's domestic policy to sustain Canada's competitive edge.

### **Canadian Domestic Policy**

Having analyzed the state of affairs between Canada and its neighbors, it is important to address Canada's domestic policy: specifically, economic affairs. The Trudeau government, at roughly the halfway point of its four-year term, remains popular. This can be attributed more to the Prime Minister's sunny disposition than to his government's achievements to date. Canada's economy is performing very well: growth is projected at 2.6 percent for the year, while unemployment is at 6.5 percent. However, the outlook for 2018 is less than robust.

Consumer and government spending can only carry the economy so far, which reinforces the need for an increase in private sector investment. During the past five years, business investment has been feeble, and the economy has contracted since 2015. The decline in business confidence can largely be attributed to uncertainties related to events in Washington that directly impact trade – Canada's lifeblood – and the prospects of economic reforms. Anticipated economic policy changes, that could arise in the U.S., could jeopardize both trade and economic reforms and, in doing so, undermine Canada's competitive edge. These factors, coupled with increasing taxes and regulation, and strained commodity markets, will continue to stall resource sector investment – the bread and butter of economic growth in Canada.

These interrelated dynamics are undermining the investment needed to spur economic growth in Canada. Energy is losing its stature and lustre as a major contributor to Canada's economic growth. This is influenced in part by persistent opposition to Energy East in Quebec, and to the Trans Mountain Pipeline in B.C., and the politically-charged regulatory process required for approval of the development of pipelines in general. Recent examples of thwarted investment in the energy sector include: Petronas's abrupt decision to cancel a \$36 billion LNG project in British Columbia and, several foreign investors withdrawing planned investment in the oil sands. Against this backdrop of changes to foreign direct investment in Canada, Canadian-based companies are increasingly looking overseas to identify future growth prospects.

With respect to the government's fiscal policy, investors typically crave clarity, yet today they face considerable uncertainty in this area. The federal government, with a deficit exceeding \$30 billion, lacks a credible plan to balance its budget and re-introduce fiscal discipline. Furthermore, Stephen Poloz, Governor of the Bank of Canada, persistently reiterates his concern about the heavy household debt burden linked to hot housing markets, notably in Toronto and Vancouver.

Against this backdrop of reduced investment and fiscal uncertainty, Quebec represents a bright spot, transforming from a laggard to a leader in recent years regarding economic growth. Indeed, Quebec's economy is outpacing that of Canada as a whole. For example, its unemployment rate is at the lowest level since 1976, when statistics were last compiled. In 2015, Quebec eliminated its annual deficit and recorded an economic surplus of \$4.5 billion last year. This sparked business confidence in the region, which represents a stark contrast to that associated with heavily-indebted Ontario. Remarkably, Ontario, typically Canada's economic locomotive, now qualifies for equalization grants from Ottawa as a "have not" province – a sign of significant economic woes.

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### **Refreshing Candor**

Earlier this year, Foreign Minister Chrystia Freeland delivered a refreshingly realistic statement on foreign policy, acknowledging the need for a degree of “hard power” in an “America First” world in which national self-interest is in ascendency, representing a stark challenge to national policies that advance forces underpinning globalisation (e.g. international trade). Consequently, Canada expects more from other allies and partners. Indeed, the government has provided a strong outline of future defence spending, projecting spending increases of 70 percent over the next 10 years, increasing from \$18.9 billion in 2017 to \$32.7 billion in 2026-27. The government provided little guidance on whether the new funds will be derived from increasing deficits, raising taxes, or by cutting other program spending, and the increase in defense spending is unlikely to commence until after the next election.

Many critics claim that the Trudeau government’s legislative track record has been mixed. In response to parliamentary opposition resistance, many of the government’s proposed measures to streamline Parliamentary procedures have been withdrawn. The most recent Parliamentary session concluded in June, with a flurry of last-minute legislative approvals, including the omnibus budget bill, which the Senate had threatened to reject, yet the approval process was ragged. Moreover, attempts to implement many of Mr. Trudeau’s specific campaign commitments has proven challenging, with some derailed altogether, e.g. on electoral reform and on the size of permissible deficits. Other policy proposals, notably related to security and Access for Information requests, have been diluted from that which Mr. Trudeau promised on the campaign trail.

Moreover, although Parliament approved the highly-touted Infrastructure Bank, its launch has been characterized by delays due to both persistent allegations around “political” interference in the project, and the inevitable concerns of provinces, such as Quebec, regarding the Bank’s potential intrusion into areas of provincial jurisdiction.

The inconsistency in aspects of policy implementation can be attributed to the relative inexperience of many Cabinet members; indeed, the Cabinet is longer on diversity than on experience. This is exacerbated by the fact that many of the senior appointees in the Prime Minister’s Office have been challenged to delegate more efficiently. Neither of these challenges are unique in a relatively new administration.

It is important to note that the Prime Minister’s leadership, with respect to responses to the recent floods in Quebec and Ontario and the settlement of Syrian refugees, has been outstanding. However, the most recent wave of refugees coming across the American border is adding a heavy burden on the federal and provincial governments in Quebec and Manitoba. The interrelated economic and social implications have yet to be defined.

The government’s core commitment to improving the well-being of the middle class remains a work in progress. Mr. Trudeau’s highly-effective campaign slogan, “supporting the middleclass,” has not yet translated into concrete policy, nor has it laid a basis for sustained growth. In spite of the government’s talk about developing new programs to help the middle class, as of yet, there have been few concrete results.

The government's principal legislative initiative for 2017, the legalization of marijuana, may have satisfied many liberal voters and was a high-profile campaign promise, but it will not do much to spur economic growth. To date, there have been more questions, from across the aisle, than answers, and the implementation date of July 1, 2018 is considered by many to be ambitious.

The government consistently commits to improving the lives of indigenous people but has not yet moved beyond symbolic acts - the customary ritual of solemn statements. Nor is there significant evidence that the \$8.4 billion annual expenditure to address this issue is doing much to change the abysmal living conditions for many of Canada's indigenous people; this has proven to be an intractable and difficult problem for many governments in recent decades.

For Prime Minister Trudeau, the last two years have represented a prolonged honeymoon. The next two promise to be more demanding. A genuinely gifted retail politician, his personality continues to sparkle both at home and abroad. However, his long-term vision for Canada's future remains somewhat unclear, as do his leadership capabilities in the event he is confronted with difficult challenges, both domestically and internationally, in 2018.

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