

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

# INSIDE POLICY

DECEMBER 2018

*2018 Policy-Maker of the Year*

## CHRYSTIA FREELAND

Canada's Negotiator



### Also INSIDE:

Consulting  
First Nations

Perpetual  
Deficits

Real Jobs for  
Real People

China's  
Sharp Power





# INSIDE POLICY

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

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# From the editors

Welcome to MLI's annual Policy-Maker of the Year issue. Past recipients have included: Minister of Justice **Jody Wilson-Raybould**, Truth and Reconciliation Commission chair **Murray Sinclair**, former Foreign Minister **John Baird** and former Bank of Canada Governor **Mark Carney**.

This year, we are pleased to name **Chrystia Freeland**, Minister of Foreign Affairs, as our Policy-Maker of the Year. As documented by **Jennifer Campbell**, Minister Freeland has taken on a troubled world in 2018 and come out on top. Her impact is particularly notable when it comes to negotiating the new US-Mexico-Canada trade agreement (USMCA) and responding to Russian aggression, as outlined by **Christopher Sands** and **Marcus Kolga**, respectively.

Yet there is still plenty that needs to be done on Canada's foreign policy file. **J. Michael Cole** provides a sobering warning on the danger posed by China's "sharp power" operations against the West – a point reiterated by **Duanjie Chen**.

Of concern has been the spectre of the Chinese telecommunications giant Huawei's involvement in 5G mobile networks. **Richard Fadden** and **Brian Lee Crowley** are very clear on the need for Canada to join most of our Five Eyes partners in denying Huawei entry to our own 5G network.

As noted by **Scott Simon**, Canada would also do well to improve trade with our fellow democracy Taiwan rather than being fixated on China. **Laura Dawson** suggests that Canada use the opportunity provided by the recent signing of USMCA to embrace the United States. It would help if Canada improved its defence procurement process too, as pointed out by **Richard Shimooka**.

Beyond foreign policy, **Sean Speer** warns about the need for Ottawa to make tough choices when it comes to its fiscal deficits – although, in a separate article, he gives Finance Minister Bill Morneau credit when it comes to his stance on reforming on pharmacare. He also joins **Crowley** in offering thoughts on how to create conditions for a more dynamic Canadian economy.

**Linda Nazareth** warns about some worrying wage trends in the modern economy. Another concern is Ottawa's use of carbon taxes, as noted by **Philip Cross**. In a separate article, **Cross** also points to some good economic news with the recent liquified natural gas (LNG) projects in BC.

We will need to work with First Nations to maximize the benefits for everyone in these natural resource projects, as noted by **Sharleen Gale** and **Ken Coates**. That will require greater clarity on consultations with First Nations – a point raised by both **Dwight Newman** and **Stephen Buffalo**.

As this is the last issue of the year, Merry Christmas and happy holidays from MLI!

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# Government must consult First Nations who support development

*Bill C-69 will undercut Indigenous autonomy while shifting more authority to environmental interveners.*



## Stephen Buffalo

The federal government's sweeping environmental legislation, which is now before the Senate, has the potential to undermine the hard-won gains of Indigenous people in the natural-resource economy. But Bill C-69 is being rushed through by a government that does not seem to understand its obligations to consult comprehensively with Indigenous peoples.

As we have seen repeatedly in recent years, the government of Canada appears to consult primarily with people and organizations that share its views on environmental issues. It pays much less attention to other Indigenous groups, equally concerned about environmental sustainability, who seek a more balanced approach to resource development.

Since his government was elected in 2015, Prime Minister Justin Trudeau has repeatedly spoken about his personal

commitment to a new relationship with Indigenous people in Canada. In action, however, he has clearly privileged those Indigenous peoples, our friends and relatives, whose perspective aligns with the more radical environmental movement.

The Liberal government cancelled the Northern Gateway Pipeline without consulting properly with Indigenous peoples in the region. The government unilaterally imposed a ban on tankers along the West Coast, again without discussing the economy-destroying impact of this decision on Indigenous peoples. The same is true of the moratorium on oil and gas exploration in Arctic waters. And Ottawa's management of the Trans Mountain Pipeline, again, has privileged the views of environmental groups much more than oil- and gas-producing nations, putting at risk a project that had the potential to bring great benefits to our communities. Many of us are in fact eager to explore the

possibility of becoming part-owners of the pipeline.

Bill C-69, if implemented in its current form, would create a much slower and more burdensome assessment and evaluation process, adding complicated impact-assessment requirements that would significantly broaden the scope and reach of the required evaluations. This would serve, in our view, as a major disincentive to investment and could bring grievous harm to our economic plans.

*Bill C-69, if implemented in its current form, would create a much slower and more burdensome assessment and evaluation process.*

The First Nations who share my concerns care deeply about the environment, and we resent the implication of statements by the government of Canada and the environmental movement that local Indigenous peoples require additional oversight over the development process. We work more closely than ever with resource companies and are pleased, in general, with the development plans and environmental protections that we have negotiated in recent years.

*Continued on page 31*

# The Supreme Court's duty to consult ruling will create immense uncertainty

*The Mikisew Cree ruling fails to make a clear decision on the issue of Indigenous rights.*

**Dwight Newman**

Canadians have now taken in the headlines: The Supreme Court of Canada has said governments do not have a duty to consult Indigenous communities when considering, drafting or passing laws. The Mikisew Cree, who had taken a case on the issue to the Supreme Court of Canada after some initial success in the Federal Court, have expressed profound disappointment in the result.

But there is another reason to be disappointed. This is a much more complicated ruling than many might first realize. And while courts are meant to decide legal issues and to make the law clear so it guides conduct, a closer look shows that this ruling has actually perpetuated uncertainties and possibly created new ones.

The Mikisew Cree First Nation in Alberta went to the Federal Court after Ottawa introduced two bills in 2012 that altered environmental laws. The Mikisew Cree said the changes could affect their treaty rights and sought a judicial review of the drafting process. They said Ottawa's duty to consult with them under what is known as the honour of the Crown should have applied. They won, but the Federal Court of Appeal ruled in December 2016 that the Federal Court did not have jurisdiction to carry out a judicial review of legislative action and that the duty-to-consult doctrine could not apply.

The honour of the Crown is an overarching legal principle requiring governments to engage fairly with Indigenous communities. Governments'



Courtesy Supreme Court of Canada | P. Landreville

*The honour of the Crown is an overarching legal principle requiring governments to engage fairly with Indigenous communities.*

duty to consult Indigenous communities on contemplated actions that could negatively affect their Aboriginal or treaty rights is derived from it.

Although the Supreme Court was unanimous in ruling against the Mikisew Cree, it split four ways on the reasons. All the judges agreed on a technical point that the statute establishing the Federal Court does not grant it the jurisdiction to review acts within the legislative process. But

beyond that point, Justice Rosalie Abella and Justice Sheilah Martin indicate in their written opinion that, although they agree the Federal Court could not intervene as requested, governments do have a duty to consult with potentially affected Indigenous communities before passing laws.

However, it is the judgment of Justice Andromache Karakatsanis writing for

*Continued on page 31*



# LNG deal shows benefits of working with First Nations

*Many First Nations communities want the opportunity to get more involved in the natural resource economy.*

**Sharleen Gale**

**Ken Coates**

**I**t is important to recall all the stories attributing the delays in the Trans Mountain Pipeline, the collapse of the Enbridge Northern Gateway project, and the general malaise in the natural resource economy to Indigenous resistance. The symbolism of Indigenous protest has been too powerful for most commentators to pass up. It suited urban assumptions about Indigenous attitudes to development.

But it was not uniformly true in the past. And it is far from true now.

Witness the recent announcement that the consortium LNG Canada will proceed with construction of its \$40 billion pipeline and processing facility in northern British Columbia. The loud rumbling from out West is the sound of an embattled energy sector celebrating the first bold sign in a few years that the country is willing to further unlock its natural resource wealth.

LNG Canada is not going it alone. They have been working, with little fanfare, to bring Indigenous communities on board. And they are there. All of the Indigenous communities along the pipeline route have agreed to the project, with the now-standard assurances of employment, business and other opportunities in return for their support and collaboration. The Haisla, in whose homeland the Kitimat terminal will be built, have long advocated for the natural gas pipeline and refinery project, and stand to benefit substantially from the economic activity.



BC Premier John Horgan, Prime Minister Justin Trudeau and Haisla First Nation Chief Councillor Crystal Smith at the signing of the LNG Canada agreement to build a \$40 billion LNG facility in northern British Columbia, October 2, 2018.

In the absence of resource and infrastructure development, there are precious few opportunities for wealth and job creation in Indigenous communities. The only alternative on offer – a continuation of the intrusive and unreliable welfare economy the Government of Canada has constructed and maintained over the past 60 years – is simply not acceptable.

Indigenous people are not slavish or uncritical supporters of resource development. Negotiators for governments and major companies can attest that Indigenous peoples drive a hard bargain, with firm requirements for environmental protection and appropriate assurances of a decent return to the communities. They pushed back against Northern Gateway and looked cautiously at earlier plans for LNG projects. But the First Nations kept listening and they kept talking.


That so many First Nations have signed on with the pipeline does not mean that the

“  
All of the Indigenous communities along the pipeline route have agreed to the project.”

LNG Canada project will proceed without criticism. Environmentalists have already challenged the corporate and government decisions and have threatened legal action and demanded more environmental assessments. First Nations and non-Indigenous leaders in northern British Columbia have asked them to back off and to trust the local communities to look after the region's best interests. Some

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Government of BC, via flickr.com/photos/begowphotos



*Tough, calm, smart. Whether it's taking on Trump and his hard-nosed negotiators or standing up for human rights in Russia, Canada's foreign minister has taken on a troubled world and come out on top in 2018.*

## Policy-Maker of the Year: Chrystia Freeland

Adam Scott (PMO) via flickr.com/photos/pmrudeau

Jennifer Campbell

One week after Canada and the US signed a deal that would save the North American Free Trade Agreement, Canadian Foreign Minister Chrystia Freeland invited her American counterpart, US Trade Representative Robert Lighthizer and his deputy, C.J. Mahoney, to her home in Toronto's well-heeled Summerhill neighbourhood for dinner. Also invited was Canada's ambassador to the US, David MacNaughton.

When the trio of powerful guests walked in, they were greeted by an apron-clad Freeland, who was not only entertaining them in the home she shares with her husband, *New York Times* writer Graham Bowley, and their three children, Natalka,

Halyna and Ivan, she was also cooking the dinner. On the menu? Alberta beef, of course, cooked by a native of Peace River, Alberta. No reports on whether there was any now-less-protected Canadian dairy on the plate.

“She certainly doesn’t put on airs or anything,” says MacNaughton, of his visit to Freeland’s busy family home. “It was just the two of us [MacNaughton and Freeland] and the two of them [the American officials], her kids, her aunt and her husband. And she cooked.”

Asked whether the Mexican officials were invited, MacNaughton candidly replies, “I think their invitation got lost in the mail.”

The new NAFTA, the US-Mexico-Canada Agreement, is Freeland’s crown jewel in a policy portfolio that also includes: calling Venezuela to account for its crumbling

Guajardo, according to MacNaughton. Not to say there weren’t rocky moments.

“That negotiation was a real grind for 18 months,” MacNaughton says, adding that it’s rare for Freeland to lose her temper. Most politicians he’s known shout and “use bad language,” whereas Freeland’s reaction is more of a “slow burn.” Referring to a late summer conversation with the Mexicans after they threw Canada to the wolves, he says she was “extraordinarily direct.”

“She was calm; she didn’t raise her voice, but they had no doubt at the end of it that they’d just been given quite the lecture.

ers – original equipment manufacturers (OEMs), auto parts and dairy interests, provincial representatives and her NAFTA advisory board – was remarkable and her energy level is “phenomenal.”

He calls her a woman of strong – always informed – opinion, but he says she’s a good listener who’s open to other, even opposing, opinions.

Equally comfortable at state dinners and camping with her family in the Rockies, the minister travels by bike between her home and her Toronto office. She’s unassuming but also unabashed in her brand of principled



*Sometimes you hear the phrase, the world needs more Canada;  
I think the world needs more Chrystia Freeland.”*

*– retired MP and human rights activist Irwin Cotler*

democracy and applying sanctions against Maduro supporters; spearheading, adopting and using the Sergei Magnitsky law, which authorizes the government to impose asset freezes and travel bans on human-rights abusers around the world; saving and resettling some of Syria’s White Helmets, a Western-backed volunteer organization credited with saving hundreds of thousands of lives in the Syrian civil war; advocating and practising a feminist foreign policy in practical, non-rhetorical ways; being the first Western leader to call what’s happening to the Rohingya in Myanmar a “genocide”; carefully balancing the Israel-Palestinian file such that both parties respect her; and making it clear to Saudi Arabia that Canada isn’t going to pussyfoot around when it jails Canadians for political reasons and allegedly kills dissidents.

And she’s done all of this with an uncommon steadiness, her fans attest. While she was deeply angry with the Mexicans, who negotiated a side deal with the US that could have cut Canada out of NAFTA, Minister Freeland has maintained a good relationship with Mexican Economy Minister Ildefonso

She’s forceful. She doesn’t hold a grudge, but she doesn’t forget.”

MacNaughton says during the negotiations, there was a lot of cross-pressure on the Canadians.

The Americans were hard bargainers, and there was plenty of rhetoric about Freeland and why she was being so tough. “She didn’t let any of that get to her. We had a game plan we’d agreed to and we stuck to it. She was very focused and disciplined.”

Regarding US President Donald Trump’s tweets about her, MacNaughton said they expected that distraction and she “just let it roll off her back. That’s part of [her] style. You can’t let that sort of thing get to you.”

MacNaughton also said he admires her intellect and that she’s not content to just understand policy issues at the 30,000-foot level. In the trade deal, she dug deeply on complex issues such as rules of origin and intellectual property.

“One of our top negotiators said they’d never worked with a minister who actually understood all the details,” MacNaughton says, adding that her outreach to stakehold-

foreign policy, something retired MP and human rights activist Irwin Cotler lauds.

“She’s been an exemplary foreign minister and a leading global voice for a rules-based liberal international democratic order,” Cotler says. “Not only in her words, but in her deeds.”

He credits her with passing the Magnitsky legislation, which he introduced as a Liberal MP in opposition, named after murdered Russian lawyer, Sergei Magnitsky. “It was her moving it through Parliament that resulted in us adopting it, then sanctioning Russians, Venezuelans and South Sudanese,” he says. At the G20 in early December, she announced that 17 Saudi Arabians would be sanctioned, too.

Marcus Kolga, a filmmaker, human rights advocate and Canadian expert on Russian and Central and Eastern European issues, agrees the legislation, which he’d been pushing for years, wouldn’t have been passed without her. “In the current geopolitical environment, Canada couldn’t ask for a better foreign minister,” Kolga says. But Kolga adds that he’d like to



see faster movement on using the law to implement sanctions, and he thinks the government needs to make a bigger priority of co-ordinating responses to Russian disinformation campaigns.

Not everyone agrees she's spreading liberalism globally, however. David Carment, professor at the Norman Paterson School of International Affairs, issues annual report cards on foreign policy and he gave Freeland a B- last year, arguing she doesn't "represent liberal values" and calling her "deeply conservative." He had yet to assign her a grade for 2018.

On the Saudi file, Freeland has been criticized for executing foreign policy "by tweet," but Cotler says her tweet calling for the release of political prisoners Raif and Samar Badawi was the culmination of ongoing advocacy.

"She stays with these cases," he says. "Sometimes you hear the phrase, the world needs more Canada; I think the world needs more Chrystia Freeland."

Retired Canadian ambassador Larry Lederman agrees she should be pushing the Saudis, but he doesn't agree with announcing "foreign policy by tweets." The tweet, he says, caused trade interruptions and problems with other Gulf countries that "don't agree with embarrassing the Saudis."

Ben Rowsell, Canada's one-time ambassador to Venezuela, argues, however, that tweeting is common practice in diplomacy. "The story is not about us as a country using an inappropriate method, it was a massive overreaction by Saudi Arabia. They really quite embarrassed themselves as a country with their reaction."

Recent revelations from Global Affairs Canada documents released to *Global News* also show that the tweet was the culmination of months of failed diplomacy, including high level meetings and communications.

Shuvaloy Majumdar, Munk Senior Fellow with the Macdonald-Laurier Institute, thinks she could have approached the file differently.

"It was fine that she tweeted her disdain in English," Majumdar says. It was not fine that [she] doubled-down in Arabic and tried to look like the government of Canada was destabilizing a G20 partner."

Around the corner from Saudi Arabia, in Israel, most agree Freeland has done a good job.

*She's openly criticized Russia over its invasion of Ukraine, and its latest moves in the Sea of Azov.*

"What can Canada do as a friend to Israel?" Majumdar asks. "Bilaterally, there are things that aren't necessarily sexy – science collaboration, co-operation between security officials, working to counter the boycott divestment sanctions movement – all of which this government has maintained."

The Centre for Israel and Jewish Affairs CEO Shimon Koffler Fogel says his organization has been impressed.

"On the files we follow most closely, Minister Freeland has been strong, consistent and principled," Koffler Fogel says. "She has demonstrated herself to be an engaged and committed friend of Israel, appreciative of Israel's serious security challenges and enthusiastic about shared values between Canada and Israel."

During her October visit to Israel, she struck a good balance, says Cotler, who was there at the same time.

"She got praise in Ramallah and Jerusalem," he says. "She didn't change what she had to say in either place."

Rowsell, who was Canada's ambassador to Venezuela when the country's

democratic wheels came off, gives Freeland credit for the directness with which she approached this challenge.

In 2017, the Maduro government threatened to shut down the legislative assembly and Venezuelans took to the streets. Rowsell says they debated what to advise the minister to say.

"On March 31, 2017, the communiqué comes out from Chrystia Freeland's office saying 'Canada calls on Venezuela to restore democracy,'" Rowsell recalls. "That made her one of the first world leaders to call a spade a spade in Venezuela. It was a watershed moment. Very quickly many other countries started using the same language."

The other file on which Freeland has distinguished herself, says Rowsell, is Russia and Ukraine. She's openly criticized Russia over its invasion of Ukraine, and its latest moves in the Sea of Azov.

Kolga remembers when Freeland's predecessor Stéphane Dion announced Canada would re-engage with Russia, but that all changed when Freeland took over.

"She clearly understands the Putin regime," he says. "It's not the kind of regime with which you can engage in any formal way, and I think Dion believed he could. He was completely naïve about the situation; Chrystia is not. She understands eastern European politics very well."

Lederman, who says overall her performance is "okay," isn't sure she's performing ideally on Russia, however. "Why isn't she sitting down with [Sergey] Lavrov?" he asks.

Prime Minister Justin Trudeau's mandate letter to Minister Freeland in early 2017 asked her to "restore constructive Canadian leadership in the world" and "promote Canada's interests and values." She has her detractors, but the hard-earned medals in her stoic, principled war chest make it hard to deny she's working toward that goal. 🌟

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Jennifer Campbell is editor of *Diplomat & International Canada magazine*.



Adam Scotti (PMO) via flickr.com/photos/pmrudeau

# Chrystia Freeland and the return of a principled Canadian foreign policy

*Freeland's leadership on human rights and security has made it easy to select her as MLI's Policy-Maker of the Year.*

## Marcus Kolga

Chrystia Freeland has put Canadian foreign policy back on track, making Canada a leader on several foreign policy fronts like human rights, security, and working with Canada's allies to maintain the rule-based order. Despite Canadians self-identifying their government as promoting human rights and democratic freedoms, principled foreign policy has not always been a priority for previous governments.

Throughout the 1990s and early 2000s, Canada's foreign policy was primarily

interests-based with little attention paid to human rights. Among the most tragic example, was the Chrétien government's refusal to send Canadian troops or even intervene within the UN in order to stop the 1994 genocide of Tutsis in Rwanda.

The shift towards a value-based foreign policy began with Paul Martin and became dominant under Stephen Harper, whose stand against the Kremlin's aggression in Ukraine and Russia's appalling domestic

human rights record is well known.

On the eve of the 2015 federal election, the Liberal Party made a commitment regarding the direction of their foreign policy on human rights under a Trudeau government. If elected, they promised to continue their "support for Ukraine's Euro-Atlantic integration and in particular, Ukraine's admission into NATO," and promised to "continue to strongly condemn Russia's belligerent actions

ABOVE: Minister Freeland takes part in a panel discussion at the Council on Foreign Relations in New York City, September 25, 2018.

against Ukraine.” Russian human rights abusers were also put on notice by a Liberal commitment to adopt US-style Magnitsky legislation to place targeted sanctions – asset freezes and visa bans – on corrupt Kremlin officials and oligarchs.

After taking power, Liberal commitments towards a continued, robust, values-based foreign policy towards Eastern and Central Europe and Russia wavered. A policy of re-engagement with the Putin regime was undertaken by then Minister Stéphane Dion, causing concern among allies and outright alarm among Russian human rights activists.

*Thanks to Chrystia Freeland, Canada has become a great spokesperson for the free world.”*  
– Garry Kasparov

In March 2016, the Kremlin immediately responded to the new approach “as outlined by Minister Dion, to end Canada’s self-isolation from Russia ... [as] a timely and welcome development.” During Dion’s tenure, Canada would dial back criticism and reestablish relations with the Putin regime, and the Magnitsky legislation promised by the Liberal government would be shelved.

Former US Ambassador to Russia, and architect of Obama’s failed reset with Russia, Mike McFaul, publicly expressed his disappointment with Dion’s rejection of Magnitsky legislation. As he went on to say, “do you stand for human rights or not? If this is an important value then this is something that should be done.”

As domestic and foreign criticism of the government’s foreign policy mounted, a decision was made in January 2017 to reset Canada’s foreign policy when Justin Trudeau appointed Chrystia Freeland as Minister of Foreign Affairs.

For Kremlin watchers, it came as no surprise that she was quickly and viciously attacked by Kremlin propagandists when the change was made public. Shortly after the announcement, a Moscow-based, pro-Putin conspiracy theory website with alleged links to the KGB published an article intended to smear Freeland as a Nazi apologist – a classic Soviet-era tactic that has been re-adopted by the Kremlin with renewed venom. The Kremlin’s disinformation attack was briefly amplified by Canadian media before being identified and quickly condemned as a disinformation campaign cooked up by Moscow.

Much to the chagrin of the Kremlin and other repressive, authoritarian regimes around the world, Chrystia Freeland worked with both Conservatives and the NDP in late 2017 to help Parliament unanimously pass Magnitsky human rights sanctions legislation. This legislation was introduced as a Conservative private members bill in the Senate by Raynell Andreychuk and James Bezan in the House of Commons.

Canada’s Sergei Magnitsky Law made international headlines and inspired many Canadian allies to consider adopting their own Magnitsky legislation. Expectations for Canada to take a greater international leadership role have grown ever since.

Russian opposition activist and former chess grandmaster and world champion, Garry Kasparov, told me that “thanks to Chrystia Freeland, Canada has become a great spokesperson for the free world, which is currently without a real leader.” He continued, saying that he’s “confident

that Canada can continue to grow in this role and take up the leadership that’s been forfeited by the US.”

Former Estonian President Toomas Hendrik Ilves says that Freeland “is considered one of the few foreign ministers who both knows something – indeed a lot – about foreign affairs and has the courage to take a principled stand.”

The Minister’s latest announcement, to apply Canadian Magnitsky sanctions on the 17 Saudi nationals who are suspected of murdering journalist Jamal Khashoggi in their embassy in Istanbul, was welcomed by international human rights advocates and media.

Yet there is always room for improvement. The 17 Saudis are only the third group of names to be added to Canada’s Magnitsky list since the legislation was adopted in late 2017; 52 were initially added and one was added in February 2018, bringing the total to 70. Many obvious candidates are missing from our lists, including Vladimir Yakunin, the ultra-corrupt former head of Russian Railways who continues to elude Canada’s sanctions, despite being specifically named by the Liberals in a 2015 election commitment document as someone who should be sanctioned.

Monitoring and enforcement, both of which are as important to the deterrent effect of sanctions, have not been updated, and a broader implementation strategy is still “in the works.” It should be noted that the 2018 federal budget included \$22 million “for the development of sanctions policy, coordination with international partners, and providing guidance to Canadians on sanctions obligations.”

Canada must also do more to help activists, like Huseyincan Celil who has languished in Chinese prisons since 2006. An ethnic Uighur, Celil’s arrest on trumped

*Continued on page 32*



# In Freeland we trust

*Foreign Minister Chrystia Freeland's hard work and social virtues proved instrumental in Canada being able to reach an agreement on USMCA.*

## Christopher Sands

The first time that I met Chrystia Freeland was at the US Department of State in March 2016. The occasion was Canadian Prime Minister Justin Trudeau's visit to Washington, where he was so warmly greeted by US President Barack Obama that the media in both countries characterized the relationship as a "bromance."

Freeland was Canada's Minister for International Trade then and joined the prime minister for a luncheon hosted by Secretary of State John Kerry. The "State Lunch" was the more wonkish alternative to the state dinner hosted for celebrities, party donors, and senior administration officials at the White House. It drew a crowd of foreign policy establishment figures and since the guest of honor was Canadian, the Canada-watchers in Washington were invited.

Trudeau was poised and dignified, carrying off the occasion with aplomb. Freeland was not the centre of attention, but she nonetheless made an impression on me. Perhaps even more than her boss, she was at ease in this room. One moment, she gave rapt attention to Kerry, who at six-foot-four-inches towered over Freeland's five-foot-two-inches frame, with her intensity keeping other well-wishers respectfully at bay. In another moment, she embraced the seated Henry Kissinger in a bear hug before chatting affectionately with him for several minutes.

Freeland was well-known to the internationalist establishment in Washington, friendly with Democrats and Republicans alike. This is one reason why Freeland is one of very few Canadian foreign



US State Department photo/ Public Domain

Foreign Minister Chrystia Freeland meets US Secretary of State Mike Pompeo at the Department of State, in Washington, D.C., May 11, 2018.



Adam Scotti (PMO) via twitter.com/CanadianPM

Foreign Minister Freeland stands behind Prime Minister Justin Trudeau as he signs USMCA with the President of the United States, Donald J. Trump, and the President of Mexico, Enrique Peña Nieto, November 30, 2018 during the G20 Summit in Buenos Aires, Argentina.

ministers who people in Washington could name from memory.

The 2016 election of Donald Trump as the 45th US president was a repudiation of the US establishment and leaders of both US political parties by disgruntled voters. The Trump administration translated its anti-establishment mandate into a campaign to revise the bargains that underlay the postwar liberal internationalist order that the United States built and maintained. Trump pledged to negotiate better deals that benefited the United States more, from NATO collective security guarantees to trade liberalization via the World Trade Organization and NAFTA.

with Freeland herself burst into the open in a sharp rebuke of Trudeau by Trump following the June G7 Summit in Charlevoix. Then Freeland accepted an award from the editors of the Carnegie Endowment for International Peace's magazine, *Foreign Policy*, as "diplomat of the year" with a speech that cemented her role as a fighter for Canadian values, doyenne of the American establishment, and one of the most vocal and articulate foreign critics of Trump's foreign policy.

For several weeks in August and September, it appeared that Trudeau and Freeland might have lost so much goodwill in the White House that the United States

global markets. Freeland understands this better than many members of the Trudeau government, and has been able to articulate this to Canadians from Bay Street to main street. It was this expertise and talent for communication that Trudeau needed to keep Canadians on his side as Canada's economic future was called into question by Trump's revisionist worldview.

In his 1995 book, *Trust: The Social Virtues and the Creation of Prosperity* Francis Fukuyama identified trust as the essential ingredient for achieving a prosperous economy and for advancing economic integration. President Trump has won the trust of many alienated US citizens who believe that on trade policy and other issues, Trump fights for them.

Former Governor General David Johnston has a new book, *Trust: Twenty Ways to Build a Better Country*, in which he makes a similar point in a more personal way. Fukuyama sees trust as necessary for capitalism and democracy to function; Johnston argues that leaders and citizens must demonstrate that they are worthy of trust, because there are risks in trying to achieve anything worthwhile, and we will follow leaders we trust even when we are not confident that things will work out for the best.

As I saw when we first met, Chrystia Freeland's capacity to build a bond of trust across national and partisan divisions is remarkable. Her defence of Canada's interest in free trade and continued economic integration with the United States, issues that bitterly divided Canadians just 30 years ago, was inspiring. That Freeland prevailed even as the United States imposed tariffs on Canadian softwood, steel, and aluminum and at a time when the White House is occupied by someone many Canadians dislike was historic.

Freeland kept the prime minister and her caucus colleagues behind her policy approach

*Chrystia Freeland's capacity to build a bond of trust across national and partisan divisions is remarkable.*

The renegotiation of NAFTA was the element of President Trump's agenda that most threatened Canada. The United States is Canada's largest export market but also its gateway to global markets via participation in US-managed supply chains and utilizing US ports and infrastructure in some cases.

First as trade minister, then as foreign minister and Trudeau's lead minister for relations with the United States, Chrystia Freeland championed free trade and collective security as the American principles that had sustained global peace and prosperity for more than half a century. She expressed the ideals once common to members of the Washington establishment when no one in Congress or the White House dared to do so. It was this steadfastness (or sanctimony) that often annoyed the Trump administration, from the president to Secretary of Commerce Wilbur Ross to US Trade Representative Robert Lighthizer.

In the summer of 2018, the Trump administration's anger with Canada and

would negotiate a bilateral deal with Mexico instead. Yet Freeland had cultivated a relationship with Mexico's Idelfonso Guajardo that proved its value by giving Canada insight into what was happening when Canada was out of the talks. It was also under her leadership that Canada had undertaken an unprecedented outreach campaign – coordinated by Canada's ambassador David MacNaughton and supported by provincial premiers of all political stripes – with state governors and members of the US Congress, who had in turn demonstrated vocal support for Canada's inclusion in the negotiations. By the end of September, Canada was back at the table as the United States-Mexico-Canada Agreement (USMCA) was announced as a proposed replacement for NAFTA.

Thirty years ago, enhanced market access to the United States was a risk worth taking for Prime Minister Brian Mulroney. Today, it is a lifeline for the Canadian economy which increasingly relies on supply chain linkages through the United States to reach

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# On Huawei and 5G, Canada must pursue our national interest

*The close relationship between Huawei and a Chinese government with a history of cyberespionage should be worrisome.*



huawei.com/ca/press-events/media-kit/gallery

**Richard Fadden**

**Brian Lee Crowley**

On November 28, New Zealand joined Australia and the United States in banning Chinese telecom giant Huawei from participating in the next-generation mobile data networks. One of New Zealand's largest telecommunications networks had proposed using Huawei's equipment in its 5G networks, but the government rejected it on the grounds that it posed "significant national security risks."

This decision has now placed Canada in the uncomfortable position of being a minority among its partners in the Five Eyes intelligence-sharing community. While the United Kingdom has not yet formally banned Huawei, Britain's main telecom company, BT Group Plc, has announced they will not use Huawei 5G equipment. Now Washington has begun a campaign to dissuade its allies from doing 5G business with Huawei on security grounds.

*There are plenty of reasons why intelligence professionals are alarmed by Huawei's involvement in our 5G networks.*

There are plenty of reasons why intelligence professionals are alarmed by Huawei's involvement in our 5G networks.

When we hear the name Huawei, the company wants us to picture slick smartphones and a normal telecommunications firm endowed with what its advertising calls a "higher intelligence."

Yet, it is not a normal telecom company. Founded by a former officer of the People's Liberation Army (PLA), Huawei is extreme-

ly close to the upper echelons of the People's Republic of China (PRC). Indeed, Huawei operates in what the PRC calls a strategic sector, a core of their domestic security interests. The company supplies the PLA itself and is officially referred to as a national champion.

China has a long history of conducting extensive cyberespionage operations against the West. Canada is not immune: There is evidence of the Chinese hacking Nortel (before its demise in 2009), the National Research Council and the potash industry. Ottawa has experienced breaches in energy, natural resources and the environment, and China is widely thought to be the culprit.

The close relationship between Huawei and a Chinese government with a history of cyberespionage should be worrisome. Add the fact that China's 2017 *National Intelligence Law* gives Beijing the power to compel Huawei's support for its intelligence work,

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# China threatens the democratic world order and Canada can't be a weak link

*Despite the warnings of our allies, Ottawa isn't taking the threat of authoritarian China seriously.*

**J. Michael Cole**

For many years, experts warned that China would threaten the system and values that define Western civilization. Analysts in Taiwan, Hong Kong and a handful of democracies on China's peripheries, as well as a number of intelligence agencies worldwide, saw signs – especially after Chinese President Xi Jinping came to power – that China's long-standing strategy of “lying low” was coming to an end. Beijing was now keen to challenge the rules of the game.

Indeed, China was already at it, using various techniques that are now making headlines in the West. Xi himself, in addressing the Party Congress, has put much greater emphasis on, and markedly

Today, we know those attitudes have been instrumental in helping China develop its economy and lift millions of people out of poverty. But those same attitudes have also allowed the Chinese Communist Party to avoid modernizing in line with Western ideals. Instead, the most successful communist party in world history has ramped up a Chinese nationalism that has reached an alarming pitch. Meanwhile, it has tightened its controls on all aspects of Chinese society, cracking down on dissidents, the press and intellectuals, threatening democratic Taiwan, breaking promises over Hong Kong, and launching a disturbing “thought reform” campaign against the Uighurs in Xinjiang.

While his predecessors wisely opted not to defy the international system, Xi has

ture investment and whose leaders were looking for alternatives to the IMF and World Bank, and so the “China model” took off across Africa, Southeast Asia, and elsewhere, growing China's influence in those countries one project at a time. We've even begun to see censorship of any criticism about China in these African countries.

However, that strategy can only go so far. It was one thing for China to conduct business with autocrats, but democracies impose rules around transparency and leadership changes that stood in the way of Beijing's ambitions. To undermine the democratic firewall, Beijing needed a novel approach to circumventing those rules. In other words, the Party needed to change us – to make our societies more like China's.

*While his predecessors wisely opted not to defy the international system, Xi has overturned that policy.*

increased the capabilities of, the United Front to facilitate China's expansionist, and now nearly global, ambitions. But we were being Cassandras, critics countered. The popular view was that engagement and, indeed, willful ignorance of the Chinese Communist Party's starkly different worldview would eventually make China become more like us – liberal, rule-abiding, and perhaps democratic. Worse, our cautions were ascribed to a Cold War mentality, or we were being “anti-China” – racist, even.

overturned that policy, sensing an opportunity to use China's new influence and economic might to refashion the world order to better suit its ambitions, and reacting to perceived weakness in the democratic world following the 2008 financial crisis, the election of Donald Trump, and Brexit. The Chinese government realized its money went further in undemocratic countries that needed infrastruc-



For several years, China got away with it. It established various networks, threw money around, created dependencies with infrastructure investment, students, and tourism, gained influence within distracted international institutions such as the UN and its affiliated agencies, and co-opted officials, intellectuals and business-people. While officials from targeted countries believed they were interacting with ordinary Chinese firms, officials, journalists, and representatives – and most were, indeed, normal – little attention was paid to possible connections to the Chinese security apparatus, the Party's United Front

as-usual engagement against the costs to the democratic values we cherish. Through various initiatives, the United States is now leading the charge by assembling like-minded democracies that desire a concerted response to the challenge posed by China.

Unfortunately, Ottawa does not appear to understand the urgency of joining that concert of democracies. Canada recently allowed the Sanya Institute of Deep-sea Science and Engineering, a unit of the Chinese Academy of Sciences, to install underwater Chinese monitoring devices with Ocean Network Canada, in waters near an American naval base

own. A bipartisan letter from two US senators, as well as separate warnings from the former heads of CSIS and CSE, called on the Canadian government to reconsider including Huawei in Canada's 5G infrastructure. The US, Australia, and New Zealand have already banned the firm from their own 5G projects because of security concerns.

Even as the Canadian government ignores many of the warnings and recommendations made by its intelligence analysts and allies, China continues to acquire Canadian firms involved in sensitive sectors. Perceptions that Ottawa isn't paying sufficient attention to these, and to China's "sharp power" in general, risk undermining trust in Canada's reliability as a member of the "Five Eyes" intelligence grouping; the same threat has faced New Zealand, another member, in the past year. We should not forget that breaking the bonds that unite us is also part of Beijing's strategy, all with the aim of weakening the US-led liberal-democratic world order.

Ottawa risks turning Canada into the weak link in that alliance of democracies. And so we are at a crossroads: we must decide whether we want to be in the democratic camp or to side with those, most of them undemocratic, that are bandwagoning with a revisionist regime that threatens the values and traditions that make our world safer. We have to decide if markets and money are less important than upholding our democratic rights – and those who would threaten to undermine them. We have to decide if we should trust integral infrastructure with a company that intelligence from our own agencies and our allies says to be wary about. Making the wrong choice could be disastrous. ❁

*In other words, the Party needed to change us –  
to make our societies more like China's.*

Work system, or to the pervasive ideology that underpinned their activities.

Gradually, China developed a constellation of media, chambers of commerce, businesses, think tanks, cultural associations and other entities that could co-opt, intimidate, confuse, and distract our officials, intellectuals, business leaders, and the Chinese diaspora. Unbeknownst to many, China's political warfare and influence operations created boosters in Western academia, silenced critics of the Party, and helped the Chinese military, often through front companies, to acquire technology it needed to modernize its forces, which now threaten stability across the Indo-Pacific.

Revelations of odious Chinese penetration in Australia, New Zealand, the Czech Republic and elsewhere in recent years have sparked an awakening that was long overdue. We've come to realize that the threat of authoritarian China is a fact of global affairs. And even as we negotiate trade deals and our businesses look to China as an alluring market, our societies need to weigh the benefits of continued business-

on the west coast. Huawei, a Chinese-based multinational that is developing 5G infrastructure in Canada, has also been accused by an Australian intelligence source to have hacked a foreign network and shared the information with Beijing, according to the *Weekend Australian*. (Huawei has "categorically" denied that it has ever provided or been asked to provide customer information for any government or organization.)

Within the Western intelligence community, Huawei's long-suspected ties to the Chinese military, and the likelihood that the firm could install "backdoors" in its telecommunication systems, has been a long-standing concern, especially as the firm has proposed itself as the sole provider capable of installing 5G networks in various countries. Critical infrastructure, such as communication networks, should not be open to firms which we know are affiliated with hostile forces.

Canada's decision to forge ahead with Huawei appears to ignore the advice of both allies' intelligence agencies and its

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# Resisting the Chinese Communist Party's silent invasion

*We need to stop foreign governments like China's from taking advantage of our open, free and democratic system.*

Duanjie Chen

I recently joined a panel discussion at the Macdonald-Laurier Institute with Professor Clive Hamilton. MLI had brought us together to discuss Hamilton's recent book, *Silent Invasion: China's Influence in Australia*. In my mind, this is the first book to provide a full-spectrum analysis on the Chinese Communist Party's (CCP's) mindset, strategy, tactics, and organizational structure for its infiltration and influence efforts abroad. No wonder the CCP desperately tried to kill its publication.

Exposing and overcoming the CCP's silent invasion of our free world is essential for preserving our way of life – one that rests on three cornerstones: the protection of private property rights, freedom of speech, and the rule of law. To my observation, there are five basic points for understanding the CCP and how we can best resist the CCP's infiltration on our soil.

**First**, under the CCP, China remains an authoritarian regime that should not be confused or mistakenly conflated with any democratic state, particularly the United States, regardless of who occupies the White House. People not convinced of this basic point may ask themselves two simple questions:

- Are you afraid of openly criticizing Trump in front of the American people, from ordinary folks all the way to high-ranking officials?
- When you travel in America, do you sense any government censorship in public or online?



The answers to both are an obvious “no.” Then ask these same questions but replace “America” with China” and “Trump” with “Xi Jinping.” The answers are clearly “yes.” As soon as you enter China, you immediately lose access to Google, Facebook, Youtube, Twitter, *The New York Times*, *The Financial Times*, *The Wall Street Journal*, *The Economist*, **Bloomberg**, *Reuters*, and so on. These websites are blocked simply because their content rattles officials in China. This epitomizes the fundamental difference between the governments of China and the US. Freedom of speech and official censorship are the two most visible yardsticks for taking the measure of any authoritarian regime.

To my dismay, some prominent pundits in Canada boldly defend and promote China's image. And when they cannot avoid criticizing the obvious, they absurdly equate

China's dark side with undesirable aspects of the US. For example, earlier this year, a distinguished fellow at the Asia Pacific Foundation of Canada (APFC) rationalized Xi Jinping's removal of China's presidential term limit, saying it was simply part of larger international trends concerning the concentration of authority in the hands of single rulers. Indeed, he lumped it in with the “current political red flags in China, the US, and Russia.”

Such intentional distortion of concepts and facts by Canadian pundits are further evidence of the success of China's influence on our public discourse and its efforts to portray the CCP party state as a benign regime.

To be sure, this APFC fellow's views are not unique among Western enablers of China. Many prominent American pundits do the same thing. What is unique is that



the Canadian government seems to be more willing to listen to these pro-China voices than our own security and intelligence agencies, which remain wary of the challenge posed by China.

**Second**, China under the CCP should not be mistaken for a benign actor. It has no intention of following through on its words or abiding by signed contracts, even if it has not declared open warfare on international norms and the international order.

Consider the current trade war between China and the US. It's unfortunate that this trade war is still viewed by many as arising primarily from Trump's protectionist instincts, as opposed to what should rightly be seen as China's persistent violation of World Trade Organization (WTO) rules. If we see China as a better trading partner than America, then it is only natural to diversify our trade towards China. But the Australian experience should be a wake-up

order and its norms. To regard the CCP as a trustworthy partner, we have to move beyond accepting its words at face value – and instead assess its intention by its deeds.

**Third**, unlike in our free democratic system, Xi Jinping faces no domestic constraint on spending public funds to maintain his grip on power, both domestically and abroad. According to official statistics:

- Government spending in 2017 on “public order and safety,” ranging from massive civil surveillance to online censorship, totalled US\$239 billion or US\$173 per capita, which is more than 80 percent of its public health spending (US\$200 per capita), and more than half of its social safety net spending (US\$341 per capita). Canada's spending on public order and safety might be higher on a per capita basis, but it's only a fifth of its spending on either public health or a social safety net.

Chinese government cares about its own people's well-being and how ruthless it is in protecting its party-state and pursuing its global dominance.

**Fourth**, many overseas Chinese communities that are controlled or monitored by the CCP should not be equated with the Chinese as a people. Criticizing the pro-CCP actions taken by these communities should not be misconstrued as racism but rather as protecting our way of life. Lodging accusations of “racism” to stir up anger among the Chinese diaspora is the CCP's calculated way of shaking our resolve to defend our values.

We also need to bear in mind that the recent wave of Chinese immigrants consists of those who have the financial means to land on our shores and enjoy our fresh air, safe foods, superior education, more civilized society, and perhaps most importantly, the financial security that protects their substantial savings. These things are all unavailable in China. Otherwise, why would people from China leave their homeland and rebuild their lives in a cultural environment that is so alien and challenging?

Here, I emphasize a mentality that has been shaped by almost 70 years of CCP rule and indoctrination; this mentality has some distinctive features that escape most Westerners:

- The CCP is the foremost authority over all Chinese born in China regardless of their current citizenship. Therefore, following the CCP's direction, rather than abiding by the law, is a red line for self-discipline.
- Territorial sovereignty trumps human rights. Therefore, topics involving Taiwan, Tibet, Xinjiang, and even the South China Sea are off limits in public discourse.
- The CCP's historical doubletalk and its eclectic approach to free-market systems have instilled a mindset that does not value honesty and integrity but blind patriotism to China and worship of money.

*The Australian experience should be a wake-up call to those who persistently advocate a pro-China trade policy.*

call to those who persistently advocate a pro-China trade policy.

Another example of China's challenge of global norms can be seen in the South China Sea dispute. In September 2015, Xi Jinping stated that “China does not intend to pursue militarization” in the South China Sea. Yet, in May 2018, China for the first-time landed bombers on a disputed territory in these waters. And on September 30, 2018, a Chinese destroyer came within 45 yards of a US naval vessel and compelled it to change course on its freedom of navigation operation near reefs and rocks that Beijing has tried to turn into artificial islands.

As these facts indicate, the CCP simply does not respect the international

- Over 34 percent of the CCP government spending was distributed in various “economic affairs” that totalled over US\$1.3 trillion for 2017. Indeed, a modest estimate of China's multi-year Belt and Road Initiative is US\$1 trillion, or over US\$700 per capita.
- In 2016, there were almost 300 million migrant workers from rural China who cannot legally settle in urban China and whose average monthly earning was little more than US\$600. Given their financial responsibility for family back home, it is an underestimation that there are only 100 million Chinese living in extreme poverty.

These numbers illustrate how little the

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# Learning from Taiwan's push to diversify trade away from China

*Rather than cozying up to non-market economies, Canada should support Taiwan's inclusion in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.*

**Scott Simon**

Trade diversification seems increasingly important to Canada, especially after US President Donald Trump's heavy-handed negotiations on the new US-Mexico-Canada Agreement (USMCA). In what some observers called a "poison pill," Article 32.10 requires any party to consult with the others prior to negotiating a Free Trade Agreement (FTA) with a "non-market economy." It also permits termination of the USMCA or replacement with a bilateral agreement if needed in such cases.

Concerned that they may be the targeted non-market economy, Chinese diplomats immediately expressed concern. The Chinese Embassy condemned the veto clause while Foreign Minister Wang Yi requested that the Canadian Foreign Minister Chrystia Freeland push for "a China-Canada free trade zone." Inevitably, there will be Canadian voices clamouring for an agreement with China as an alternative to dependence on US markets.

## ***Diversifying from China: Taiwan's New Southbound Policy***

Economic integration with China also has its perils, which is why China's closest neighbour – Taiwan – is trying to extricate itself from three decades of expanding Foreign Direct Investment in China. Taiwanese companies in such industries as consumer electronics and footwear use complex cross-straits production chains to capture the relative advantages of labour-intensive production in China with capital-intensive work in Taiwan. These practices have con-



Photo illustration Renée Depocis / iStock

*Diversification from China is a matter of survival for Taiwan as a free and democratic country.*

tributed to China's economic development, while removing the most polluting industries from Taiwan, but they also expose Taiwanese firms to Chinese political influence and greater economic risk in the event of recession or trade war.

Taiwan is actively seeking to diversify trade. Shortly after President Tsai Ing-wen (Democratic Progressive Party) took office in May 2016, the Taiwanese government launched the New Southbound Policy (NSP) to forge a sense of economic community

and a consensus for cooperation with other countries in the Indo-Pacific. Taiwan's NSP targets all the countries in the Association of Southeast Asian Nations (ASEAN), plus India, Pakistan, Bangladesh, Sri Lanka, Bhutan, Nepal, Australia and New Zealand. The strategy looks beyond trade to people-to-people exchanges in education, culture, and tourism. Taiwan, which already has free trade agreements (FTAs) with Singapore and New Zealand, is largely building on established diplomatic ties.

Diversification from China is a matter of survival for Taiwan as a free and democratic country. China is quite clear in its strategy of using economic incentives to entice Taiwanese business leaders to support its geopolitical ambitions. Leading Taiwanese industrialists have been coerced into making public statements in favour of "unification." Just after President Tsai was elected, moreover, China cut off the spigot of tourist groups to Taiwan. Taiwan has since replaced that business with even larger numbers

of tourists from Japan, South Korea, and Southeast Asia. In turn, China has lured away some of Taiwan's few remaining official diplomatic allies, forced foreign companies to identify Taiwan as part of China on their websites, and made shows of military strength off Taiwan's east coast.

According to a report by the Brookings Institution, Taiwanese investment in the six largest ASEAN economies grew by more than 25 percent over the first year of the NSP, and doubled in India. The NSP has also seen increased incoming investment to Taiwan from the target countries, as well as increases in tourists and foreign students. The NSP thus deepens people-to-people ties, while establishing Taiwan as an indispensable independent actor in the region.

### **Chinese and International Reactions to the NSP**

China has strongly protested some of the bilateral initiatives of the NSP. In December 2017, after India and Taiwan signed a Memoranda of Understanding (MOU) on Industry Cooperation, the Chinese Communist Party mouthpiece *Global Times* warned that the move "is again testing Sino-Indian ties, and is harmful to both sides in the long run." Beijing also protested when the Philippines signed a bilateral investment agreement with Taiwan. China's actions are almost an undeclared embargo against Taiwan, which already has independent trade relations with these and other countries as part of the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC) Forum. China has already dissuaded Australia from signing an FTA with Taiwan; and it is likely to also exert pressure on other countries seeking closer relations with Taiwan.

Despite such pressure, Japan and the US remain supportive of Taiwan's initiatives. At the October 2018 Yushan Forum held in Taipei, Japanese parliamentarian Keiji Furuya stated Japan's support for Taiwan's eventual participation in the Comprehensive and Progressive Agreement for Trans-Pacific

Partnership (CPTPP) and Interpol. US Environmental Protection Agency Principal Deputy Assistant Administrator Jane Nishida also shared lessons from US-Taiwan collaboration under the International Environmental Partnership since 2014. Across the Indo-Pacific, the US-Taiwan partnership has addressed issue of mercury pollution, e-waste, and air pollution. The NSP provides for a deepening of these relations, especially if it allows Taiwan and the US to jointly assist third countries deal with environmental problems.



*China's actions are almost an undeclared embargo against Taiwan.*

### **What can Canada do?**

In an essay published by MLI, Cmdre Eric Lerhe recommended making Canada's "One-China" policy more flexible so as to permit closer collaboration with Taiwan on security and other issues. MLI Managing Director Brian Lee Crowley, calling Taiwan the "Canary in the Coal Mine" in regard to the health of a free, open and secure Indo-Pacific region, suggested upgrading Canada's relations with Taiwan in order to counter Chinese aggression.

Perhaps the first course of action should be to deepen and strengthen the work that Canada has already devoted to the CPTPP. Following passage through Parliament and Royal Assent on October 25, 2018, the CPTPP has become Canadian law. It creates a major trading bloc of 11 countries with 495 million people and a combined GDP of \$13.5 trillion; while giving Canadian firms greater access to Japan (the world's third-largest economy). The CPTPP now includes Canada, Mexico, Peru, Chile, but also Japan, four ASEAN states (Brunei, Malaysia, Singapore, and Vietnam), Australia and New Zealand. The most glaring omission

is the United States. Trump, immediately after taking office, withdrew his country from the negotiations.

This agreement, arguably Prime Minister Justin Trudeau's greatest diplomatic achievement, was even renamed after Canada secured a preamble that includes labour rights, environmental protection, gender equality and Indigenous rights. Last year, Canada's FTA negotiations with China failed because China was not interested in signing an FTA that included these progressive elements. China is simply not ready to accept

such practices as freedom of association and collective bargaining by autonomous unions. The same cannot be said of Taiwan.

Indeed, the goals of Taiwan's NSP converge nicely with those of the CPTPP. Taiwan is already the world's 20th largest economy and the 17th largest exporter. In 2016, Taiwan's trade with CPTPP economies was valued at US\$129 billion, over a quarter of Taiwan's total foreign trade. If Taiwan were a member of CPTPP, it would be the 5th largest economy in the partnership, after Japan, Canada, Mexico and Singapore. Welcoming Taiwanese membership in the CPTPP would only solidify the gains that Canada sought in making the TPP both comprehensive and progressive. It might even get the US back on board.

Expanding the CPTPP, rather than cozying up to non-market economies that threaten their neighbours militarily and openly flaunt the rule of international law, is the kind of trade diversification we need if Canada is to contribute to a free, open, secure and progressive Indo-Pacific. ❁

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# Now that the USMCA dust has settled, Canada should join Team America

*No two countries are more closely aligned on security and economic issues than Canada and the United States.*

**Laura Dawson**

**T**ime has passed and armchair quarterbacking the US midterms is no longer Canada's favourite pastime.

So what's next? A Democratic majority in the House suggests some of the content of the final United States-Mexico-Canada Agreement (USMCA) might change but the deal as a whole will be grudgingly accepted by the House Democrats after the addition of certain custom flavours such as strengthened labour provisions. Also, most chapters of the USMCA look an awful lot like the Trans-Pacific Partnership so the Democrats will have a hard time justifying the rejection of a deal that is so similar to an agreement they themselves launched in 2011 and endorsed in 2016. But the reality is that changes in Congress will have little effect on Canada-US relations.

The biggest thing that Canada needs from the US right now is relief from the destabilizing effects of the US national security tariffs, but the only way Congress can provide this is through the slow process of stripping US President Donald Trump of his right to impose them – the only tariffs that are under his exclusive authority. Meanwhile, the Section 232 provisions will continue to be a burden to both foreign allies and US businesses.

Maybe Canada should take advantage of this newly rebranded, best-ever, North American relationship. A year ago, the narrative from the White House maintained that Canadians were cheaters, Mexicans were criminals, and NAFTA was the worst trade agreement ever negotiated. With the



Prime Minister Justin Trudeau with US President Donald Trump (with Mexican President Enrique Peña Nieto) during the signing ceremony for the new NAFTA in Buenos Aires, Argentina, November 30, 2018.

conclusion of the USMCA talks, the new White House message is that Canada and Mexico are America's closest friends, and we are all joined together by the best trade agreement on Earth.

An interesting side effect of this rebranded relationship is that it opens the door for Canada to join Team America, potentially a powerful new vehicle for North American co-operation but one in which the Trump administration is clearly in the driver's seat.

After 13 teeth-grinding months of NAFTA/USMCA negotiations, Canadian officials would be forgiven for wanting to take a break from more engagement with the US. But if Canadians are willing to put a smile on their faces and a proposal in their pockets, they could launch a number of co-operative initiatives with US departments and agencies at the working level (i.e., not requiring Congressional actions) that

could generate real economic and security gains. Key areas for co-operation include streamlined border procedures for passengers and cargo, a 21st century approach to skills recognition and work force development, a competitiveness-oriented approach to energy infrastructure, and e-commerce rules that encourage innovation, support small- and medium-sized enterprises (SMEs) and protect consumer rights.

In the security realm, Canada and the US have real and immediate choices to make about the future of NORAD in a world of expanding threats. And whether the two countries work together inside of NORAD or out, there needs to be a robust, integrated mechanism for dealing with cyberattacks.

Unlike trade agreements, which the President has made no secret of disliking,

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# Canadians should be concerned about the fighter jet replacement process

*The Liberal government's fundamental flaw is that it has sought to oversee a fair fighter jet competition where none is possible.*



combatcamera.forces.gc.ca

**Richard Shimooka**

Canada's process to replace its CF-18 fighter jets stands as one of the strangest in the country's history. It has witnessed four major decisions on the purchase of new fighter jets: in 2010, 2014, 2016 (for interim Super Hornets), and 2017 (for surplus Australian jets). Notably, the first three decisions were cancelled.

Even as the auditor general weighs in on the last episode, the current process to permanently replace the CF-18 fleet with 88 aircraft has avoided serious scrutiny. Like the interim buy, the entire process is fundamentally flawed and likely to produce a significantly poorer outcome for Canada.

The Liberal government's fundamental flaw is that it has sought to oversee a fair competition where none is possible. Of the airframes considered, the F-35 offered the highest capability (by a significant margin) with the lowest lifetime cost, and due to its high international production rates (twice as many units as any of its competitors) has

*Interoperability  
should be one of  
Canada's main  
considerations when  
modernizing  
its air fleet.*

industrial benefits far exceeding Canadian offset requirements.

Many other nations have come to these conclusions; internationally, the F-35 has not lost a competition. In many cases, governments simply sole-sourced in order to avoid the potential expense of a competition with a foregone conclusion. In Canada's case, the government has not sought to select the right option, but rather to create a vehicle for building political capital, using the façade of a fair and transparent competition process.

Upon coming to power, the Liberal government loosened the operational

requirements to give an opportunity for other manufacturers to compete. In doing so, it undermined one of the strongest advantages of the F-35: its interoperability with NATO and NORAD.

Interoperability should be one of Canada's main considerations when modernizing its air fleet. Furthermore, the Royal Canadian Air Force expects the replacement to remain relevant in high-intensity operations until the 2070s. However, a less capable aircraft will mean that Canada will need to either consider costly upgrades or a full replacement earlier than that date.

The inherent industrial benefits to the F-35 program are one of its most obvious advantages. Yet this leg of the competition has proven the most problematic. The F-35 program has already delivered more than \$1-billion of work to Canada. If Canada acquires the F-35, Innovation, Science, and Economic Development Canada predicts more than \$10-billion over the program's lifetime.

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# Mr. Morneau's "gap filling" approach on Pharmacare is the right course

*Pharmacare reform should be surgical and targeted rather than transformative.*

**Sean Speer**

There's tremendous interest in how Ottawa's budget commitment to "move forward" on national pharmacare will take shape, especially since Ottawa's positioning has been difficult to read.

Government members on the Health Committee have enthusiastically endorsed a single-payer public prescription drug plan. Yet Finance Minister Bill Morneau has said that we need a plan "that deals with gaps but doesn't throw out the system that we currently have."

Stakeholders, policy observers, and the Canadian public are understandably interested to learn whose vision will ultimately win out in this great pharmacare debate between Mr. Morneau and his parliamentary Caucus mates. We may have to wait for the Liberal Party's 2019 election platform to fully learn the outcome.

But, in a way, today's discussion is about determining whose perspective and approach is better for Canada and Canadians.

So what does this mean in substance? Mark me down for Mr. Morneau's "gap filling" approach. Reform should be surgical and targeted rather than transformative.

As the recent Mowat Centre paper by Erich Harmann, Adrienne Davidson and Koran Alwani shows, the mix of public and private insurance in Canada has evolved since before the onset of Medicare. We now have a system that while imperfect cannot be merely swept away.

Nearly 70 percent of Canadians receive prescription drug coverage through an employer-sponsored private plan. This



“  
Mark me down for  
Mr. Morneau's  
“gap filling”  
approach.”

includes adults and dependents. And a new poll by Abacus Research finds that three-quarters of people believe that drugs are “affordable” and that the status quo is generally serving them well.

It seems sensible to me therefore that any possible reforms should start with preserving the parts of the system that are working. Mandatory single-payer coverage would sweep them away.

Disrupting health insurance for the

nearly 24 million people with private coverage to help a targeted share of the population strikes me as both poor policy and bad politics – especially since the coverage would likely be narrower and less flexible for many.

Now, this doesn't mean that there isn't room for reform. There's evidence that the system is poorly serving some households. There are certainly gaps to be filled.

Out-of-pocket spending is up and is regressive. Those without private or group insurance are three times more likely to say that the medicines they need are unaffordable.

Harmann, Davidson and Alwani's paper rightly considers the potential for a “gap filling” scenario that would be “specifically designed to address gaps in populations that currently face disproportionate under-coverage or high out-of-pocket expenses.” The Ontario government's means-tested reforms to OHIP+ is a worthwhile example in this regard – though I'd even be in favour of removing the current age restrictions and consolidating other provincial drug plans.

Another option that I've written positively about is replacing the current non-taxation of health and dental benefits with a new, more generous refundable version of the Medical Expense Tax Credit. It seems manifestly unfair for those workers with employer-provided insurance to get a \$4-billion tax break while those without have to purchase insurance with after-tax dollars.

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# Creating the conditions for a dynamic, growing, and inclusive economy

*Rather than a “high-tax, high-transfer agenda,” governments should focus instead on expanding work and opportunity for all Canadians.*

**Brian Lee Crowley**

**Sean Speer**

A series of MLI studies, commentaries, op-eds, speeches, and presentations have long warned about the limits of an over-emphasis on income redistribution and an inattention to economic growth and opportunity. The principal insight of this body of work is to highlight both the economic harms of high taxation and the deleterious effects of government dependency.

This preoccupation is entirely compatible with being in favour of progressive policy reform and responding to legitimate public concerns about economic dislocation or the “fairness” of public spending and policies that unduly favour certain companies, sectors, or individuals over others. Indeed we favour such policy reforms, when done right.

There are nascent concerns in Canada that policy-makers must be cognizant of. Forty percent of Canadians are concerned about losing their jobs to automation and other technological innovation. A late 2017 poll found that more than one-third think they’re doing worse compared to those 25 years ago and nearly 60 percent expect their circumstances will only worsen. And a poll conducted during the 2018 Ontario election showed that nearly three-quarters believe that the economy is “rigged” to the advantage of wealthy citizens and large firms. It’s irresponsible for policy-makers to neglect these sentiments.

This is especially so since, as MLI

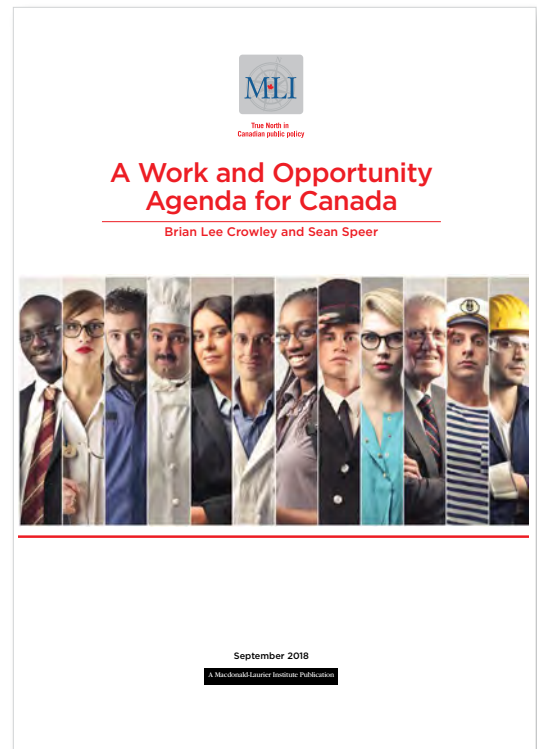
scholarship has shown, headlines about Canada’s low unemployment rate overstate the real state of the economy and opportunity therein. The utility of the unemployment rate is diminished by our aging population and longer school duration and, as a result, can cause us to overlook regional, demographic, and other challenges. Measuring the employment rate for workers in their prime years between the ages of 25 and 54 provides a better sense of our economic performance and access to broad-based opportunity. The current employment rate for this cohort signals the risk of stagnation and the potential for economic unrest.



*The key is to place an emphasis on enabling the conditions for growth, work and opportunity.*

MLI has thus been active in thinking and writing about these issues as part of what we’ve come to call our *Real Jobs for Real People* project. We’ve published commentaries and papers on the role for targeted programming to help low-income families and support workers affected by industry dislocation. We’ve also written about the case for expanding the Working Income Tax Benefit (now Canada Workers Benefit)

to help the working poor scale the “welfare wall” and take on more employment hours or accept a new job without being financially penalized. And we’ve produced various reports and op-eds in favour of putting an end to crony capitalism and replacing it with a more neutral economic policy framework that supports competition, entrepreneurship, and business formation across the economy.



The key is to place an emphasis on enabling the conditions for growth, work and opportunity. We've started from the premise that government has an essential role to play in rewarding entrepreneurship and innovation, encouraging investment and job creation, and ultimately in promoting and celebrating the dignity of all work.


Our paper, *A Work and Opportunity Agenda for Canada*, builds on these key themes at a time when policy-makers seem instead to emphasize equity over growth, fairness over dynamism, and unconditional transfers over paid work.

Such an agenda starts first and foremost by learning the lessons from Canada's "redemptive decade" in the 1990s, when the federal and provincial governments enacted sweeping economic and fiscal reforms to reduce the size and scope of government, extract fewer resources from the market economy, and in turn enable businesses, investors, and workers to save and invest more and ultimately generate new economic activity.

The "redemptive decade" should be understood as a time when policy-makers understood the need to shift the focus from

tions to expand broad-based access to work and opportunity. They draw on the work of MLI scholars including Ken Coates, Dwight Newman, Blaine Favel, Richard Owens, Jane Londerville, Philip Cross, and various others with different backgrounds, perspectives, and expertise. These are issues and topics that ought to transcend partisanship and ideology.

We're cautiously optimistic that we're seeing early signs of progress on the broad contours of our "work and opportunity agenda" from both the federal and provincial governments. The



*Such an agenda starts first and foremost by learning the lessons from Canada's "redemptive decade" in the 1990s.*

The paper critiques what we call the a "high-tax, high-transfer agenda" and instead sets out an alternative agenda focused on expanding work and opportunity for all Canadians. A "work and opportunity agenda" isn't merely a slogan or a branding exercise. It challenges the basic assumptions of the current emphasis on raising taxes on high-income earners and spreading the proceeds to those farther down the income scale in the form of large, unconditional cash transfers. This approach, we argue, is not just economically harmful, but it also misunderstands and poorly serves the people it's ostensibly aiming to help.

As an alternative, our "work and opportunity agenda" is chiefly about creating the conditions for a dynamic, growing economy and giving people the tools to participate in it. Basically, our overarching goal is two-fold: (1) bolster economic growth and (2) empower Canadians – including underrepresented groups (such as Indigenous Canadians and persons with disabilities) and working-class people – to find and keep paid work.

high taxation and redistribution (including public employment) to fiscal discipline, de-regulation, investment, and growth. It's a formula that gave Canada world-leading economic growth, investment, and job creation as well as significant reductions in poverty. Present-day policy-makers would be wise to relearn these lessons. A pro-growth, macro-policy framework is an essential ingredient for work and opportunity.

In addition, we set out seven more targeted policy areas to bolster a work and opportunity agenda for Canada:

- Improve Indigenous education and social services;
- Support resource development;
- Strengthen Canada's intellectual property regime;
- Support affordable and responsible home ownership;
- Favour pro-work labour policies;
- Open up internal trade; and
- Eliminate intergovernmental overlap and duplication.

These areas for reform are based on MLI's inventory of analysis and prescrip-

Trudeau government has recently agreed to strengthen our IP regime as part of the new US-Mexico-Canada Agreement (USMCA). The Ford government has committed to reforming Ontario's income support programs to better promote work. The Pallister government in Manitoba has signaled new ambitions on interprovincial trade. And the Council of the Federation has talked about rationalizing intergovernmental activities and functions. These developments could no doubt be implemented faster and bigger but they're at least steps in the right direction.

It's perhaps a sign that people are starting to realize we've reached the limits of a "high-tax, high-transfer agenda." This would be good news. Growth, work and opportunity are what Canada needs. ✨

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Brian Lee Crowley is Managing Director and Sean Speer is a Munk Senior Fellow at MLI. They are authors of the MLI study, *A Work and Opportunity Agenda for Canada*.

# Regaining trust among investors through LNG

*The two LNG projects in BC are a potential turning point for Canada's energy industry.*

## Philip Cross

Canada's economy cannot prosper without a growing and healthy resource sector. For years the oil and gas industry has struggled with prices in North America well below those elsewhere in the world. The announcement that two Liquefied Natural Gas (LNG) projects exporting natural gas to Asia are going ahead potentially is a turning point for Canada's energy industry.

There are three major benefits from the LNG projects: building the pipelines and terminals; increasing BC's natural gas production; and raising the price received for natural gas exports.

The higher price for natural gas in Asia than in North America is the principal rationale for LNG projects. Higher prices are needed to justify building a \$6.2 billion pipeline to the BC coast. Without higher prices, it would be more profitable to simply ship natural gas to the US on existing pipelines.

Canada currently sells its oil and gas at a discount in North American markets because it cannot access higher prices on world markets. In so doing, Canada is deprived of billions of dollars of export revenue, money that could be used to finance other investments and fund government services.

The largest potential impact of LNG exports to Asia is raising the price rather than the volume of natural gas exports. Currently, natural gas exports are limited to the US, where prices are well below the price in Asia. If prices remain higher in Asia, then exports diverted from the US

market also receive higher prices on top of the 10 percent increase in output.

Higher prices in Asia than in the US market substantially raise the potential gains from LNG exports. If the price of natural gas in Asia was the same as its 2014 average, the net impact would be to raise net exports by \$564 million a year due to the 10 percent hike in production if exports to Asia receive the same price as in the US.

*Canada definitely needs a mega project to succeed to show investors that it can build major resource projects.*

However, if the price of our natural gas exports to Asia rose to \$10 (Canadian, well below the current price of US\$11 in Asia), then the boost to exports increases sharply to \$6.3 billion. This is because not only does the 10 percent increment in new production receive the higher price, but the other 90 percent of exports to Asia that is diverted from the US market also receives nearly double the US price. This serves as a model for how our economy benefits from diversifying exports from North America where oil and gas prices are low to world markets where prices are higher.

Of course, the same rationale for selling natural gas at a higher price in Asia also holds for the proposed pipelines connecting Alberta's oil to Asian markets. BC seems to be hypocritical in allowing its own natural gas industry to benefit from access to Asian markets but denying Alberta's oil the same relief. The importance and potential benefits of moving Alberta's oil to world markets was

underscored when the discount for Western Canadian Select oil reached \$40 a barrel.

Statistics do not tell the whole story of the impact of the LNG projects. While important in itself, greenlighting these projects sends a broader message to investors around the world that Canada is able to undertake large projects in its resources. It may not be entirely coincidental that the announcement of

these projects was quickly followed by the initiation of the public review process for Gazoduc's \$14 billion LNG proposal connecting Ontario to Saguenay in Quebec. Before these announcements, Canada was acquiring a reputation as hostile to large investments in resource projects, reflecting the cumulative weight of delays or cancellations to projects such as the Trans Mountain, Energy East and Northern Gateway pipelines or the Ring of Fire mining projects in Northern Ontario.

Canada definitely needs a mega project to succeed to show investors that it can build major resource projects under its current political and regulatory regime. The two LNG projects in BC may only be a first step in regaining trust among investors, but they are an important step nonetheless. ✱

*Philip Cross is a Munk Senior Fellow at MLI and is the former Chief Economic Analyst at Statistics Canada.*

*This first appeared in the Hill Times.*



# Perpetual deficits and the failure to make tough choices

*In its Fall Economic Statement, the government now anticipates deficits with no return to budgetary balance on the horizon.*

**Sean Speer**

The government's Fall Economic Statement confirmed what some of us have suspected for some time. The Trudeau government's deficit spending isn't informed by theory or facts. It isn't about infrastructure or growth-enhancing "investments." It isn't temporary. And it's likely to climb further.

Notwithstanding its commitment to run "modest short-term deficits," the government is now poised to end its four-year mandate with a higher deficit than it recorded in its first full year in office (see Table 1).

Talk of "return[ing] Canada to a balanced budget in 2019" has been conspicuously discarded. It's since been replaced with vague promises of "carefully managing deficits over the medium term," as columnist Andrew Coyne rightly picked up on for its unseriousness.

Still, the government's supporters point to the debt-to-GDP ratio and other proof-points as evidence that criticism is overstated. Are they correct? I don't think so.

Others can debate the politics of the Liberal Party's broken promises on the magnitude and duration of the government's deficit spending. That it's now twice the size and at least double the duration will doubtless be part of the impending election campaign. Voters will ultimately render their political judgement in October 2019.

The more important question, it seems to me, is the fiscal implications of the government's policy choices and what they may mean in the short- and medium-term.

Let me start by postulating that most readers agree that, as a general rule,

governments shouldn't run budgetary deficits. There may be exceptions for extraordinary circumstances such as economic downturns, war, or similar unplanned scenarios. But few voices – and the Liberal Party in the 2015 campaign was no exception – tend to argue in favour of perpetual deficit financing. It's notable for

*Minister Morneau  
and others are now  
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a cause for concern.*



**(Table 1)**  
**Annual Budgetary Deficit – Actual and Projected (\$Billions)**

2016-17	2017-18	2018-19	2019-20
-19.0	-18.9	-18.1	-19.6

instance that the Liberal platform specifically committed to "end the Harper legacy of chronic deficits."

Assuming that most agree that "chronic deficits" ought to be avoided, the Fall Economic Statement moves in a decidedly opposite direction. It anticipates ongoing deficits including a \$11.4 billion deficit for 2023-24 in the final year of the fiscal planning period. A return to budgetary balance is indeterminate.

Mr. Harper's government, by the way, ran budgetary deficits for six years in large part due to a devastating global recession. Mr. Trudeau's is on track to record deficits for eight years and counting during a period of sustained economic growth. But I digress.

Minister Morneau and others are now insisting that "chronic deficits" aren't a cause for concern. They're wrong for two reasons.

The first is politics. Economists who diminish the risks to Ottawa's budgetary position need to recall their lessons in Public Choice theory. The political economy of budgeting will invariably put pressure on government spending and the projected deficit – particularly as we approach the election. Think of it this way. Program spending grew, on average, by 6.3 percent annually in the government's first three years. It's currently projected to grow by an average of 2.8 percent in the next two (see

of higher program spending in election years. This trend is known in economics and political science circles as the “political business cycle.” Our research finds evidence of it in Canada. Pre-election spending has tended to increase, on average, by 7.8 percent over a forty-year period. This would put considerable pressure on the government's projections in 2018/19 and 2019/20. The result would be higher spending, and, all things being equal, higher deficits.

similar to the 2008/2009 global recession would have an even more marked effect. And that's before any further “stimulus” spending that would invariably follow.

The result, of course, would be longer and larger deficits. This is the inherent risk of “carefully managing deficits.” Politics tend to erode the carefulness. And economics tends to undermine the management. The cumulative effect is that policy-makers can lose control of their fiscal choices for a time.

**(Table 2)**  
**Annual Program Spending Growth (Percent)**

2015-16	2016-17	2017-18	2018-19	2019-20
6.9%	5.3%	6.7%	3.1%	2.5%

Table 2). Does this seem plausible in light of the impending election and the invariable spending pressures such as pharmacare that the government will face? No.

Especially since its budgetary projections in those years are already growing. The Trudeau government's 2018 budget project-

The second is economics. The Canadian economy is near the top of the business cycle. The case for deficit-financed fiscal stimulus in the current economic context is weak. But it's worse than that. Current fiscal indiscipline only erodes our capacity to face future

Make no mistake: the Trudeau government isn't the first to think itself capable of “carefully managing deficits over the medium term.” Several have tried. But virtually all – including the previous Trudeau government – have failed. Why? The confluence of politics and economics are simply too strong.

Are we facing a fiscal crisis? No, of course not. But that's the wrong question. The right one is whether Ottawa's budget is well-positioned to handle the inexorable political and economic pressures that it will face in the coming months and years. The answer is a lamentable no.

The Minister's speech remarked that “managing a federal budget calls for some tough choices.” The sentiment is certainly correct. It's just not clear that he and his government have internalized it. Ongoing, perpetual deficits are the result. And they're bound to get worse before they get better. ❄️

Sean Speer is a Munk Senior Fellow at MLI.

*Ongoing, perpetual deficits are the result. And they're bound to get worse before they get better.*

ed program spending in 2018/19 was \$312.2 billion. It's now set for \$320.2 billion and the fiscal year isn't over yet. This amounts to, as my former Fraser Institute colleagues have pointed out, an \$8-billion spending increase in a mere six months.

And political and special-interest pressures are only going to mount as we approach the election campaign. Past MLI research finds a consistent trend in favour

challenges, including (but hardly limited to) an economic downturn.

A recent estimate, for instance, finds that an economic slowdown similar to the one that Canada experienced in 2000/2001 would cause the deficit to hit nearly \$50 billion due to lower revenues and higher spending on employment insurance and other counter-cyclical benefits and programs. A major economic contraction

# Superstar sectors, superstar workers, and worrying wage trends

*While individuals can take initiative to become superstars in key industries, the solution is going to be more complicated on an economy-wide basis.*

**Linda Nazareth**

**B**e a superstar or go home goes today's mentality. Superstar athletes attain stunning salaries, superstar companies dominate the financial markets, superstar CEOs raise questions about just how much compensation is appropriate. To the superstars go the spoils, apparently, while everyone else gets the scraps. But perhaps the influence of the superstar phenomenon goes even further than we thought. New research suggests that we now also have superstar sectors and that those sectors are changing the way that the economy functions and changing it in a way that does not favour workers.

The findings come courtesy of researchers at the McKinsey Global Institute (MGI) who took a broad look at superstar companies, cities and sectors. In the first two categories, the results are fairly predictable. Defining a superstar firm in terms of revenue, they found that such firms make 1.6 times more economic profit than their equivalents did a couple of decades ago, and that the top 10 percent of such firms capture 80 percent of profit in companies with revenues above \$1-billion (hello, Amazon and Apple). In terms of cities, they found that the 50 superstars they identified (only 11 of which are in the United States and none of which are in Canada), make up 21 percent of world gross domestic product (GDP) and are pulling away from their peers in growth of GDP per capita and share of world GDP.

It is in the sector analysis though that things get really interesting. Yes, they found

that a huge chunk of gross value added and gross operating surplus – 70 percent – has accrued to a handful of sectors over the past 20 years. That is not surprising: we already know that it is increasingly a winner-take-all kind of world. What is more startling is the finding that such sectors are structured in such a way that they are less likely to share the spoils with their workers than has historically been the case in high-flying industries.

to “gross operating surplus,” which is to say to debt- or business-holders rather than to labour. That contrasts with the sectors that are on the decline, such as manufacturing. When those traditional sectors did well, you historically saw labour's share of GDP also rise sharply. As the new superstars have gained ground, that relationship has apparently started to fracture. As a result, we are seeing gross operating surplus (a



“Superstar sectors...are changing the way that the economy functions.”

So which are the superstar sectors? MGI identifies them as being in a clutch of categories: the Internet, media and software; pharmaceuticals and medical products; financial services; professional services; and real estate. Among other characteristics, as a group these sectors tend to be less capital-intensive than average, but more intensive in terms of research and development and of skill. For example, skilled labour inputs are two to three times higher in financial and business services than they are in general. And yes, that does mean that some workers within those industries receive stratospheric salaries.

Superstar worker compensation aside, in superstar sectors the gains tend to accrue

measure that includes measures of corporate and capital income) rise while labour's share of GDP declines. In many countries, including Canada, Australia, Germany and Japan, gross operating surplus has risen by one to two percentage points over the past decade. In the United States, it has risen by 3.3 percentage points but even that is dwarfed by what is happening in China where the increase was 10 percentage points over the same period.

And when you do see wage gains in these superstar sectors, they tend to go to already-employed workers rather than toward employing new ones. So finance

*Continued on page 35*



# Carbon taxes are just another futile government plan to change society

*If our society shifts away from fossil fuels, it will be enabled by radical technological innovations, not government tinkering with the tax system.*

**Philip Cross**

The primary justification for the Trudeau government proceeding with its plan to impose a federal carbon tax on provinces without a provincial one is that climate change requires a government policy response. When faced with any problem or challenge, our society reflexively asks what the government intends to do.

Looking back at the source of major changes in our society, one wonders where this reflex comes from? Almost all the major transformations in our economy and lifestyle have bubbled up from millions of people deciding to do the same thing in the absence of any government directive or technological innovations by firms independent of government policy.

The 1960s saw a monumental shift from societal to individual rights, which affected everything from civil rights, divorce, the role of women in the labour force and regulation in subsequent decades. The emphasis on the individual is still playing out every time you buy a specialty coffee in the morning on the way to work or a craft beer after work. The 1960s also saw the rapid secularization of society as religion lost its hold, especially in Western Europe, which encouraged the increased profanity and declining quality of culture and public discourse.

These fundamental societal changes revolutionized the structure of the family and the role of women in the workplace. In particular, the divorce rate rose sharply in the 1960s and 1970s. Divorce laws were re-written by governments and courts in response to the already existing reality



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of more divorce: “No party platform or social protest spurred legislators. Neither national politicians nor Congress played a part in their adoption. No bureaucracy or interest group promoted them,” writes James Wilson in his extensive analysis in *The Marriage Problem*. Instead, the divorce revolution “was produced by a quiet group of lawyers, judges, and legislators who calmly worked out, without much controversy, the logical implications of the steadily growing view that men and women were legally and morally equal.”

Women’s participation in the labour force essentially doubled in the post-war era, until by 2010 there were more women than men in the US labour force. There are many reasons for this, starting with the spread of household appliances (notably the washing machine) and the birth control pill, to the increasing frequency of divorce, but none involved a government decision targeting woman for an enhanced role in the labour force.

*The story for over a century is one of governments struggling to keep up rather than leading change.*

Demographic shifts have always occurred when millions of people simultaneously arrive at similar decisions about having children. Every country that begins to industrialize – irrespective of its form of government and specific family policies – soon sees a sharp drop in its birth rate, heading off Malthusian predictions that prosperity inevitably will create a self-defeating strain on food supplies. The major demographic event of our time was the post-war baby boom (resulting in the rapid population aging currently underway). It was not the

result of policy; in fact, governments were quite unprepared for it.

The same applies to the major changes in our economy and the organization of our cities. The proliferation of cars and the mass migration to the suburbs in the middle of the 20th century were the uncoordinated response of millions of people to the development of cheap and reliable vehicle transport, not from prodding by governments, which were caught unawares by the exodus from downtown. The automobile itself was the necessary response to the impossibility of relying on horse transport in increasingly crowded urban centres. New technologies such as self-driving vehicles are being developed by firms outside of government directives.

The most important technological change affecting our everyday lives today is

the spread of communications and sharing of information, especially via social media, on portable devices like smartphones. Again, this was the result of millions of people making their own choices independent from government policy.

The story for over a century is one of governments struggling to keep up rather than leading change. After travelling in the West, the prolific Japanese intellectual Fukuzawa Yukichi, whose picture is on the 10,000-yen note, observed that “not a single invention in commerce or industry was created by government.”

Given all the examples of transformative change driven by social and technological forces far beyond the control of governments, why do activists expect government policy to lead the charge against

climate change? Climate change requires a substantial reduction in greenhouse emissions around the world. The solution is likely to be technological innovation involving either the capture of emissions before they are released into the atmosphere or a way of reducing the amount of carbon dioxide already in the air. Neither will result from slapping a tax on carbon and reducing the demand for fossil fuels. If our society shifts away from fossil fuels, it will be enabled by radical technological innovations not government tinkering with the tax system. Thinking otherwise reflects a refusal to learn the lessons of how foundational change occurs in our society. ❁

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*Philip Cross is a Munk Senior Fellow at MLI and former chief economic analyst at Statistics Canada.*

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### **Consulting First Nations (Buffalo)**

*Continued from page 4*

Far from being uniformly opposed to resource development, many Indigenous nations understand that careful engagement and effective partnerships will provide us with a once-in-a-century opportunity to share in Canada's prosperity. Indigenous peoples need an economic base, jobs and income for our communities. And over the past two decades, we have been creating just such an economic and business foundation for ourselves. Our nations reject the permanent poverty that generations of government policies have imposed on us. And while many Indigenous peoples share some of the values and perspective of some members of the environmental movement, we resent the assumption that non-Indigenous environmentalists speak for us. We can speak for ourselves – and we insist on the right to do so.

The policies of the Trudeau government are systematically constraining the freedom and economic opportunities of the oil- and gas-producing Indigenous peoples of Canada. We are not asking for more from government.

We are actually asking for less government intervention. Bill C-69, in its present form, will undercut our autonomy and would shift more authority to environmental interveners who do not, with some exceptions, live on our lands and work with our people.

The Indian Resource Council, the organization I represent, calls on the government of Canada to pull Bill C-69 from its legislative calendar and to revisit its consultations with Indigenous peoples and organizations. We urge the government to consider what is at stake for us. We can see before us, based on the hard work of our ancestors, a growing recognition of our Indigenous and treaty rights and our place in Canadian society. We find it ironic and upsetting that the prime minister, who has repeatedly said that the federal relationship with Indigenous peoples will be the defining characteristic of his government, will be the one snatching opportunity and prosperity from our grasp. ❁

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*Stephen Buffalo is the president and CEO of the Indian Resource Council. He is an MLI author. This article first appeared in the National Post.*

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### **Duty to consult ruling (Newman)**

*Continued from page 5*

herself and two others, including Chief Justice Richard Wagner, that stands out in its indecisiveness and generates immense uncertainty. Justice Karakatsanis seems to accept that principles like the separation of powers between the executive and judicial branches preclude the court's interference, and purports to write a decisive ruling that the duty to consult does not apply to the law-making process. But she goes out of her way in the last paragraph to say that in a future case, the court could still develop from the honour of the Crown rules apart from the duty to consult that would regulate the law-making process to protect Indigenous groups.

Considering that Justice Abella and Justice Martin would have applied the duty to consult, there is every reason to think they might be on board with whatever Justice Karakatsanis thinks the court might dream up in the future. The result is that a five-judge majority has effectively signaled that this is not the end of the road

for this issue. And Justice Karakatsanis's implied readiness to find new rules in the honour of the Crown may actually have signaled that all kinds of new Aboriginal law doctrines await.

As Justice Russell Brown points out in his decision – which receives the full support of Justice Malcolm Rowe and two others in their judgment – Justice Karakatsanis has suggested arguments that no party made. She has effectively invited new litigation, seemingly on the basis of some vague discomfort with rendering the legal decision she had to make.

This is not the first time the court has evaded making a clear decision in the context of Indigenous rights. Indeed, judges in past decisions have expressed a preference that matters be resolved by negotiation, and thus would effectively leave some details of Aboriginal law issues undecided to permit this. But we have also seen that this perpetuation of uncertainty can actually make negotiation more difficult. On some Aboriginal law issues, different parties' expectations of what the underlying law would decide are so far apart that a negotiated outcome is not achievable.

Justice Brown is quite right when he powerfully notes that the resulting uncertainty from Justice Karakatsanis's indecision “would have deleterious effects on Indigenous peoples, and indeed on all who rely upon the efficacy of validly enacted and constitutionally compliant laws.”

Judges have heavy responsibilities. Foremost among them is a responsibility to decide the issues put before them. Without the readiness to make the decisions their role requires, the rule of law suffers and Canada suffers. ❁

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*Dwight Newman is a professor of law and Canada Research Chair in Indigenous Rights, University of Saskatchewan and is a Munk Senior Fellow at MLI. This article first appeared in the Globe and Mail.*

## **LNG (Gale, Coates)**

*Continued from page 6*

critics claim that the agreements with band governments do not reflect support from hereditary Chiefs, raising another level of political complexity and argument.

First Nations also want the opportunity to get even more involved. Many communities would like to be partial owners of the pipeline and believe that an equity investment would produce even better long-term returns to the North. Unfortunately, the Government of Canada has not yet worked out financial systems that will, on a proper business case foundation, permit Indigenous communities to expand their investments and build real wealth. Watch for further developments in this area in the years to come.

It is hard to over-estimate the significance of this decision. The LNG Canada project is massive, promising tens of thousands of jobs and flow-on business opportunities that will reverberate across the country. LNG Canada's commitment to the Canadian natural gas sector is invaluable for many reasons. But perhaps the most significant is the company's ability to build support among First Nations and the First Nations' determination to be part of the natural resource economy.

First Nations have been left out of their share of Canadian prosperity for generations. The legal battles that resulted in “duty to consult and accommodate” decisions were intended to create space for First Nations in the Canadian economy. LNG Canada is not the first barrier-busting project, but it is the largest. Even better, particularly in the face of the protests over Trans Mountain pipeline, the LNG Canada initiative makes it clear that First Nations are prepared, when the conditions are right, to become true partners in charting the future of the Canadian economy.

If the current trajectory holds, and building on some 15 years of ever

closer collaboration between industry and Indigenous peoples, LNG Canada's arrangement is going to become the “new normal.” First Nations will ensure environmental standards are protected. They will ensure that local residents get a better deal out of resource projects. And Canada will make a fundamental shift that brings Indigenous communities into positions of authority, partnership and wealth generation. This is the economic future that First Nations deserve. ❁

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*Sharleen Gale is a Dene woman who serves on council for Fort Nelson First Nation in northeastern BC. She is chair of the First Nations Major Projects Coalition. Ken Coates is a Munk Senior Fellow at MLI.*

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## **Freeland foreign policy (Kolga)**

*Continued from page 11*

up “terrorism” charges was racially motivated and is part of a broader repression being undertaken by the Chinese regime. The application of Magnitsky sanctions against those responsible for Celil's incarceration would be an appropriate response and could motivate Chinese officials to finally release him.

Canada's recent decision to rally more than a dozen other countries to sign a letter expressing concern about the mass internment of Uighurs in the Xinjiang region is a welcome first step. But more needs to be done.

Greater focus is also required on creating a national disinformation strategy ahead of the 2019 federal elections and on a permanent ongoing basis to protect Canadian democracy, our information spaces, and society from aggressive state-sponsored actors who seek to subvert them.

Canada has greatly benefitted from Chrystia Freeland's foreign policy expertise, her positive reputation among democratic global leaders and the principled foreign policy she has developed and applied. Freeland's leadership is



also readily apparent in other aspects of Canadian foreign policy, not least the NAFTA negotiations that have preoccupied Ottawa for almost two years. On this file, Freeland led the Canadian negotiating team and proved instrumental in successfully reaching an agreement that will help ensure future stability for Canadian trade with our North American partners.

Freeland's leadership on global issues was recognized by the globally influential *Foreign Policy* magazine when they named her "Diplomat of the Year." Last month, Freeland's work on the trade deal earned her the title of "[t]he minister of being everywhere at once," when she was named *Maclean's* "Hardest Working MP." It is with pleasure that MLI can now add our voice by naming her Policy-Maker of the Year.

With the conclusion of these trade negotiations, the Minister likely has a greater ability to make her mark on other aspects of Canadian foreign policy – and the political capital to do so. Given her record so far, that should be something that we should welcome. ✿

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Marcus Kolga is a Senior Fellow at MLI.

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### ***In Freeland we trust (Sands)***

*Continued from page 13*

to the United States even when it looked to have failed. Had NAFTA been lost, the Trudeau government may well have fallen, and her political career summarily ended. Freeland's hard work and social virtues might have prevented the collapse of the North American economy. The admiration of the US establishment for Chrystia Freeland may have irked President Trump but might have renewed Canada's relationship with the United States for decades to come. Freeland has earned this recognition as the 2018 Policy-Maker of the Year by the Macdonald-Laurier Institute. ✿

Christopher Sands is Senior Research Professor and Director of the Center for Canadian Studies at the Johns Hopkins University's Paul H. Nitze School of Advanced International Studies. He is also a member of the Research Advisory Board at MLI.

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### ***Huawei (Fadden, Crowley)***

*Continued from page 14*

and the red flags become too numerous to ignore.

Rather than a "higher intelligence," a better catchphrase for Huawei might be a "covert intelligence" – one that is neither innocent nor friendly to the West.

Britain has not yet banned Huawei, but they too are increasingly wary.

For instance, the UK's Huawei Cyber Security Evaluation Centre admits the equipment it has tested might not match what Huawei uses, concluding that it can no longer provide "long-term technical assurance ... around Huawei." Yet Ottawa relies on the exact kind of equipment testing to support its claim that Huawei poses no national security threat.

*Denying Huawei participation in our 5G network is not a rejection of engagement with China.*

Huawei already has extensive relationships with Canadian institutions of higher learning, including a promised \$50-million to 13 universities to develop 5G technology. Not only would Canada be reliant, then, on Huawei software and hardware for its next generation of wireless communications

technology, but Huawei may well end up owning the patents of 5G technologies that arise from these research partnerships.

Curiously, Ottawa refuses to allow Huawei to bid on federal contracts, a strange position for a government that seems relatively sanguine about the Chinese giant's presence in the development of a wireless network that will soon transmit our most sensitive information.

It is not too late for Canada to reject the firm's participation in 5G. Ottawa is currently conducting a security review designed to analyse cyberthreats from companies just like Huawei. It is difficult to see how such a review could conclude that Huawei's support in 5G doesn't pose a serious and unacceptable security risk.

We have no reason to doubt the expertise and good faith of Canada's cyberdefenders, but – and it's a big but – they can't know what they don't know, and that fact alone involves considerable risk. Allowing Huawei access to our 5G network means we are giving our cyberadversaries the means to learn how to defeat our defences. And once they have done so, it is too late.

Denying Huawei participation in our 5G network is not a rejection of engagement with China. Rather, it is doing exactly what China is doing – unapologetically and energetically pursuing our national interest. Like many Western countries, we are often bedazzled by China's economic potential and therefore fail to ensure our national interests aren't sacrificed in the pursuit of access to Chinese markets.

These two objectives must go hand in glove. A fruitful relationship requires that we gain China's respect. The indispensable precondition of that respect is that we assert and protect our national interests – and those of our allies – with vigour and clarity. ✿

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Richard Fadden is a former national security adviser to the Prime Minister, and Brian Lee Crowley is the Managing Director of MLI. This article first appeared in the *Globe and Mail*.

## China (Chen)

*Continued from page 18*

With these grotesque views shaped by the CCP, some Chinese immigrants subconsciously place the CCP party-state above all, even after they are sworn in as Canadian citizens. Therefore, when they act at the CCP's will while thriving in our lands, they may or may not be aware that their actions directly contradict the very values we Canadians cherish, such as the rule of law, human rights, and a sense of integrity. This is when our governments need to provide clear guidelines to safeguard Canadian values and national interests.

**Fifth and finally,** Chinese as a language is totally different from English; it is very difficult for any native Chinese speaker to learn English, and vice versa. Regardless of their ages and education level, it is understandable for many first-generation Chinese immigrants to confine themselves in Chinese communities, where CCP-controlled Chinese media are the most readily available and influential in shaping their national and international outlooks. Such Chinese communities, including Chinese student associations on our campuses, are hotbeds for the CCP to expand its overseas influence.

Chinese communities, however, like all other ethnic communities in Canada, are invaluable for our nation's growth and development. We should not allow them to remain under, or succumb to, the control of the CCP and its stance against our national interests.

As such, we need to devote greater efforts to integrating Chinese immigrants into our social fabric while safeguarding and propagating our national values through all available venues, which include but are not limited to ESL classes, legal and civil aid services, national holiday celebrations, and job and volunteer training programs.

Such programs need to be designed and implemented in both English and Chinese.

In conclusion, we must stop any foreign government from taking advantage of our open, free and democratic system for the purpose of overtaking it. Our government must take action to resist China's silent invasion. ✱

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*Duanjie Chen is a Munk Senior Fellow at MLI.*

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## Team America (Dawson)

*Continued from page 21*

these types of co-operative initiatives appeal to his stated preferences of regulatory red-tape reduction, lower-cost business environment, and a strong military.

And while we're at it, individual projects are good, but institutional frameworks with political clout and resources to sustain momentum are better. The Obama-Harper Regulatory Cooperation Council set up to reduce unnecessary regulatory duplication for traded goods has transitioned well to new leadership. The Beyond the Border project was not so lucky. Launched in 2011, it was intended to streamline the cross-border movement of goods and people while ensuring the security and integrity of the North American perimeter. With neither Mr. Trump nor Prime Minister Justin Trudeau recommitting to a Beyond the Border 2.0, its constituent projects such as airport preclearance and customs facilitation were forced to make their own way through the labyrinth of government processes, hobbled by lack of high-level leadership and resources.

If Canada engages with the Trump administration on any new co-operative initiatives, Canadian officials will (as ever) have to do most of the preparatory work for both sides. And if any of these go badly, Canadians could again be the subject of negative presidential tweets.

Is it worth it? Absolutely. No two countries are more closely aligned on

security and economic issues than Canada and the United States. At the first sign of threat to our shared territory, our military commands are fully integrated; and, despite diversification efforts, the US still buys nearly 20 times more Canadian products than Canada's second largest export market.

Yes, the Team America option will test the patience of Canadian officials charged with bilateral engagement, but it will ultimately leave Canadians more secure and more prosperous during a period of escalating global volatility. ✱

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*Laura Dawson is a Munk Senior Fellow at MLI and is the director of the Canada Institute at the Wilson Center in Washington. This article first appeared in the Globe and Mail.*

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## Fighter jets (Shimooka)

*Continued from page 22*

Canada joined the F-35 partnership and later, in 2006, signed the follow-up memorandum of understanding (MOU), largely to give national industries an opportunity to compete for lucrative subcontracts in the program. Notably, the 2014 Canadian defence procurement strategy was designed to obtain similar work for other projects, illustrating the efficacy of the approach.

Yet the MOU stipulates that Canada would not receive a guarantee for these contracts, in what is known as offsets. This was to ensure that contracts were awarded based on the best value and kept overall costs down. This was not a practical concern for Canadian industries: it was expected to secure a disproportionately large share of Joint Strike Fighter program contracts. Under the post-2014 procurement system that gives multipliers for high-tech direct work on a project, the F-35 would well exceed other program offerings. Nevertheless, the government has continued to insist on guaranteed offsets that will only undermine its industrial base.

The government's mishandling of the offset piece threatens to derail its entire procurement strategy. The United States government has reiterated that it cannot receive guaranteed offsets under the MOU. Should the government insist on the offset guarantees, the only alternative is for Canada to leave the JSF program and become a Foreign Military Sales (FMS) customer for the F-35. This is the "normal" procurement process for US military exports, but it has a number of serious drawbacks.

First, Canada's existing contracts would be immediately put at risk, as those were obtained through the best-value approach. Canada would likely receive contracts of lesser quality and duration in return. Second, the price Canada would have to pay for each F-35 would increase as would the cost of sustainment and upgrades over the life of the program. It would have to pay FMS administrative and research fees to the US government, a termination cost to the JSF program, and the additional cost of guaranteed offsets. Whereas Canada's per-aircraft flyaway cost is now about \$85-million (significantly cheaper than all the other options), that cost would increase to \$100 to \$115-million per aircraft. This may make other options, particularly the Super Hornet, cost-competitive to the F-35.

The flaws of the ongoing process to replace the CF-18 should be evident to Canadians. In order to make the competition fair for other competitors, the government has created a format that seriously handicaps the F-35 program. It will artificially drive up its costs, discount its unique and important operational capabilities, and obtain poorer industrial outcomes for the country – but even then, the F-35 may win. Considering the importance of this selection to national security, Canadians should be concerned. ❀

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*Richard Shimooka is a Senior Fellow at MLI. This article first appeared in the Hill Times.*

## **Pharmacare (Speer)**

*Continued from page 23*

A reconfigured Medical Expense Tax Credit could be means-tested to provide a sliding scale of public support based on a household's income. It would level the playing field between insured and non-insured and expand access to federal support for non-insured Canadians in general and those who need help in particular. It may also shift the insurance model over time from employment-based to individual-based.

This latter point is worth emphasizing in light of labour market trends: a federal policy that nudged a shift from private and group insurance that is tied to one's employer to a more individualized model over time would ensure greater portability in an era of potential "job churn," as Minister Morneau has described it.

This "tax swap" also has added benefit of making the tax system more progressive. It would therefore be consistent with the Trudeau government's reforms to federal child benefits and the tax treatment of small businesses.

Reforming federal support for acquiring supplementary insurance would also presumably reduce the number of non-insured households and in turn reduce pressure on provincial and territorial budgets. Think of it as a way for the federal government to help sub-national governments without offending federalism or producing another layer of intergovernmental entanglement.

It's not to say that it's the only scenario worth considering. Many others will have other suggestions too. But it's the type of surgical and targeted reform that, in my view, Ottawa ought to prioritize in the coming months. ❀

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*Sean Speer is a Munk Senior Fellow at MLI. This article is based on his remarks at a Pharmacare panel hosted by the Mowat Centre on September 25, 2018.*

## **Superstar (Nazareth)**

*Continued from page 29*

professionals get huge bonuses and the most coveted tech workers see their wages skyrocket, but that is about it. Certainly there is not a huge need to aggressively hire as output rises. Take the example of Alphabet (the parent of Google) as compared to Sears. As of 2017, Alphabet had about 88,000 employees in total, which may sound like a lot. But Sears, the now-defunct retailer, had about 140,000 employees in the United States last year. That is despite the fact that Alphabet was flying high while Sears was languishing.

None of this might seem to matter at the moment, not when Canada and the United States are enjoying the lowest unemployment rates they have seen in decades. There is no shortage of jobs around and, with demand high, wages are starting to move higher as well. The problem, however, is going to come when the business cycle moves down a bit, the labour-intensive, non-superstar sectors need less labour and the superstars do not pick up the slack. That situation could get even worse when sectors across the board increase their use of automation and demand for labour falls even further.

The trends are clear enough: things are shifting in a way that could leave workers in a precarious position in the years to come. One way that individuals can protect themselves is to simply do what they need to do to become superstars within superstar industries and reap the rewards of doing so (a tactic that is obviously a lot less simple than it sounds). On an economy-wide basis, however, the solution is going to be more complicated and has to at least start with an acknowledgment of the way that the deck is being stacked. ❀

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*Linda Nazareth is a Senior Fellow at MLI. Her latest book is *Work Is Not a Place: Our Lives and Our Organizations in the Post Jobs Economy*. This article first appeared in the Globe and Mail.*





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