



CANADIAN GLOBAL AFFAIRS INSTITUTE
INSTITUT CANADIEN DES AFFAIRES MONDIALES

TRENDS IN INTERNATIONAL SECURITY AND TRADE (TRADE EXPERTS' ROUNDTABLE, 2017)

Elinor Sloan

SUMMARY

With so many trouble spots in the world, it can be difficult for Canadian businesses to know where to trade successfully and with some assurance of security. Canadian government organizations affiliated with Global Affairs Canada (GAC) need to take a broader view of international security, rather than assessing states in isolation, if businesses are to have the vital information they need.

Multinational firms typically have their own risk-management strategies, but smaller enterprises need outside help to get information on the safety and viability of potential export markets.

However, none of these GAC-affiliated organizations examines the security risks inherent in the interactions between countries. While GAC focuses mainly on economics, tariffs, language barriers and other factors, the Crown corporation Export Development Canada (EDC) does risk assessments of various countries to determine what level of political risk insurance it should offer to Canadian companies. The Business Development Bank, best known for its domestic work with Canadian businesses, has branched out into the foreign realm too, but only in terms of industry and market research on export assessments.

Based on long-term GDP projections, some interesting forecasts have been made that will affect how and where Canadian businesses trade internationally. They will need accurate information on risk and security in order to do so. By 2030, the four largest world economies will be those of the U.S., China, India and Japan. For now, the best bets for Canadian businesses in the short to medium term include China, India and some Southeast Asian countries, although there are some accompanying dangers in

these areas. Pakistan, Nigeria and Egypt have the potential to be good markets for Canadian exports, but the current risk from terrorist activity precludes foreign commercial interests.

The unstable relationships between countries in the world's hotspots need continuing assessment and watchfulness. For example, having modernized its navy, China is flexing its military muscles in the South China Sea, building artificial islands there and bullying the Philippines and Vietnam over their competing claims in the region. If the United States were drawn into a larger conflict there, Canadian business interests would be severely compromised.

The perennial tensions between the two nuclear powers Pakistan and India pose a threat to commercial activities in that part of the globe, along with terrorist activity within Pakistan and neighbouring Afghanistan. The terrorism risk is also high domestically in the Philippines, while Canada's NAFTA partner, Mexico, can be a dangerous place to do business, due to organized crime. And while sub-Saharan Africa would appear to offer great potential for trade, those opportunities must be weighed against the spread of Islamic State supporters, other terrorists and corrupt regimes throughout that continent.

Canada cannot even count on stability among its traditional trading partners, with Eastern Europe keeping a wary eye on Russia's moves and Japan under threat from missiles launched by the volatile North Korean regime.

What all this means is that the Canadian organizations doing business assessments must expand their scope. So far, they have limited themselves to looking at individual states and providing information about what is going on inside those states' borders. However, countries do not exist in bubbles. Canadian entrepreneurs need the bigger picture of risk assessment as seen through a broader international lens. When they understand fully the security dimensions of global commerce, they will be in a much better position to make the right decisions about their business ventures.



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TENDANCES DANS LA SÉCURITÉ ET LE COMMERCE INTERNATIONAL (TABLE RONDE D'EXPERTS DU COMMERCE, 2017)

Elinor Sloan

RÉSUMÉ

Avec toutes les zones à risque qu'il y a dans le monde, il est difficile pour les entreprises canadiennes de savoir où faire du commerce avec une certaine garantie de sécurité. Les organismes gouvernementaux canadiens affiliés à Affaires mondiales Canada (AMC) doivent adopter un point de vue plus ample sur les questions de sécurité internationale, plutôt que d'évaluer les États indépendamment les uns des autres, si on veut que les entreprises aient l'information vitale dont elles ont besoin.

Les multinationales ont habituellement leurs propres stratégies de gestion du risque, mais les plus petites entreprises doivent compter sur une aide externe pour obtenir l'information sur la sécurité et la viabilité des marchés d'exportation qu'elles visent.

Cependant, aucun des organismes affiliés à AMC n'examine les risques pour la sécurité inhérents aux interactions entre les pays. Alors qu'AMC met principalement l'accent sur l'économie, les tarifs, les barrières linguistiques et autres facteurs, la société d'État Exportation et développement Canada (EDC) effectue des évaluations du risque dans plusieurs pays afin de déterminer les niveaux d'assurance risques politiques qu'elle propose aux compagnies canadiennes. La Banque de développement du Canada, mieux connue pour son travail domestique auprès des compagnies canadiennes, s'intéresse aussi au domaine international, mais seulement pour les questions de recherche industrielle et d'études de marché dans le cadre d'évaluations du potentiel d'exportation.

Selon les projections à long terme du PIB, certaines prévisions intéressantes se dégagent et influenceront sur la façon et l'endroit où les entreprises canadiennes mèneront leurs

activités commerciales à l'étranger. Pour ce faire, ces entreprises auront besoin d'informations précises quant aux risques et à la sécurité. Dès 2030, les quatre plus grandes économies mondiales seront les États-Unis, la Chine, l'Inde et le Japon. Pour l'instant, les meilleurs partis à court et moyen terme pour les entreprises canadiennes demeurent la Chine, l'Inde et certains pays du Sud-Est asiatique, bien que ces régions comportent quelques dangers. Le Pakistan, le Nigéria et l'Égypte présentent un bon potentiel pour les exportations canadiennes, mais le risque d'activités terroristes fait obstacle aux intérêts commerciaux étrangers.

Il est primordial d'évaluer et de surveiller sur une base régulière les relations instables entre les pays des zones à risque. Par exemple, maintenant qu'elle a modernisé ses forces navales, la Chine fait étalage de sa puissance militaire en mer de Chine méridionale, en y construisant des îles artificielles et en intimidant les Philippines et le Vietnam au sujet de leurs revendications dans la région. Si les États-Unis étaient entraînés dans un conflit dans cette région, les intérêts commerciaux canadiens y seraient sérieusement compromis.

Les tensions permanentes entre les deux puissances nucléaires que sont le Pakistan et l'Inde sont une menace pour les activités commerciales dans cette région du monde, tout comme l'est le terrorisme au Pakistan et dans l'Afghanistan voisin. Le risque terroriste est aussi élevé aux Philippines, tandis que le partenaire du Canada dans le cadre de l'ALENA, le Mexique, peut être un endroit dangereux pour les affaires en raison du crime organisé. Et bien que l'Afrique subsaharienne semble offrir un grand potentiel pour le commerce, il faut y tenir compte de l'étalement des partisans de l'État islamique, d'autres groupes terroristes et des régimes corrompus qu'il y a sur le continent.

Le Canada ne peut même pas compter sur la stabilité de ses partenaires commerciaux habituels, notamment les pays de l'Europe de l'Est qui se tiennent sur leur garde face aux manœuvres russes ou encore le Japon devant la menace des missiles d'un régime Coréen plutôt volatile.

En raison de tout cela, les organisations canadiennes qui font des évaluations commerciales devraient élargir leur portée. Jusqu'à maintenant, elles se sont limitées à examiner les États isolément et à renseigner sur ce qui se passe à l'intérieur des frontières. Toutefois, les pays ne sont pas des entités hermétiques. Les entrepreneurs canadiens doivent pouvoir compter sur une vue d'ensemble quant à l'évaluation des risques. Ce n'est que lorsqu'ils auront une bonne connaissance des aspects liés à la sécurité du commerce mondial qu'ils seront en mesure de prendre les bonnes décisions pour leurs projets commerciaux.

Just as trade is the lifeblood of our economy, security is essential for trade. Successive Canadian governments have encouraged entrepreneurs and firms — especially small and medium-sized enterprises — to expand their markets for goods and services, seeking new export markets. Firms compete aggressively and exporters may not face a level playing field when attempting to secure customers abroad. Some areas of the globe are highly unstable; while larger multinational firms have robust risk management strategies, others struggle to operate at the nexus of trade, commerce and security. In this environment, it is important to examine the intersection of today’s global security threats and Canada’s emerging trade policy.

The idea that the international security environment affects international trade is both an accepted and abstract statement. What does it mean in concrete, physical and geographic terms, when we talk about the security dimension of global commerce? One way of examining this question is to identify areas of the world where trade opportunities are likely to increase or decrease over the coming decades, and then to discuss the international security environment in those places that present Canada with the greatest opportunity. Mapping countries and regions of the world according to opportunity and international security risk, as a means of giving a global snapshot of the nexus of conflict and trade, reveals both expected outcomes and surprises. In the short to medium term, Canada should pursue opportunities in China, India and certain countries of Southeast Asia. In the longer term, it will want to consider untapped and growing markets in places like Pakistan, Bangladesh, Nigeria and Egypt.

EXISTING APPROACHES TO IDENTIFYING MARKETS

Global Affairs Canada puts significant effort into determining where Canadian business should pursue new markets. Its Global Markets Action Plan, launched in 2013, involves a number of detailed steps in a multi-stage process to identify high growth areas, regions of potential opportunity, and ultimately places where Canadian companies should seek new business (Global Affairs Canada, 2017). The analysis is comprehensive and involves not just economic capacity but also things like tariff and non-tariff barriers, including language barriers. Global Affairs’ Trade Commissioner Service (TCS), a network of trade professionals working in embassies and high commissions around the world, gives Canadian firms specific and practical advice on how to do business in a particular country. In future, Global Affairs may include an overlay of international security risks to give a still more complete picture, but it does not do so now (Downs, 2017).

Export Development Canada (EDC), a Crown corporation that serves in essence as the banking arm of Global Affairs, conducts a political risk assessment of countries around the world to determine the level of political risk insurance it should offer Canadian businesses in support of their overseas investments. In doing so, it focuses almost exclusively on factors within the “black box” of a state. Political risk is determined mainly by looking at internal factors such as regime type, violent acts within the host country, socio-economic grievances, etc., (Baas, 2010a). To the extent external inter-state dynamics are accounted for, it is in the realm of “bad neighbourhoods” where conflict in one state spills over into the host country (Baas, 2010b,153).

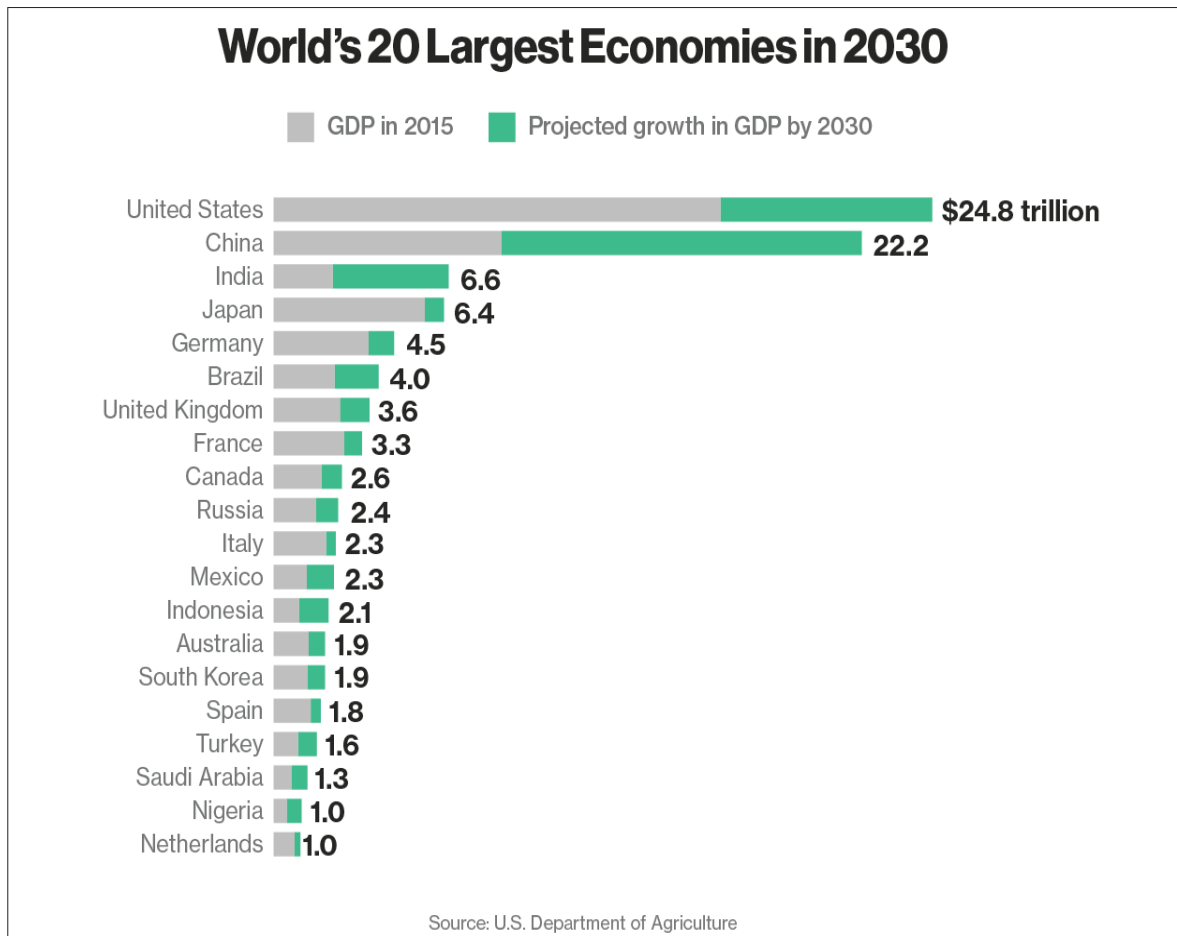
Canadian Commercial Corporation (CCC), a second Crown corporation, adopts the same general approach as EDC, but where EDC supports exporters doing business with foreign companies, CCC supports those seeking foreign government opportunities (such as building a government airport). Finally, while a third Crown corporation, the Business Development Bank of Canada (BDC), has historically sought to help Canadian business grow in the domestic market, it now offers an international market selection consulting service. BDC’s five-step process for identifying foreign markets for Canadian business, too, is “black box” in orientation, focusing on industry and market research (BDC, 2017).

INCORPORATING THE INTERNATIONAL SECURITY COMPONENT

Economic opportunity

This paper adopts an admittedly broad brush and crudely determined economic approach, yet it also makes a preliminary attempt to incorporate the international security component. It bases economic opportunities on long-term GDP projections from two large-scale reports as an indicator of where market opportunities may be going — or where they may be leaving. One report is from the U.S. Department of Agriculture (2016). The report covers almost all countries of the world and looks at projected growth in GDP by 2030. It finds that by then the United States will remain the largest economy in the world, followed closely by China. India will be in third place, some ways back, and Japan a close fourth. The rest of the G8 will also be in this top 20, as well as Brazil, Mexico, Indonesia and Nigeria, among others (see Figure 1).

FIGURE 1



What is equally if not more interesting is the degree to which countries are growing or stagnating. If we look at the projected cumulative growth rate of 180 countries over 15 years we find the most vibrant economies, those that are in the top 20, are in South Asia (India, Bangladesh, Pakistan); China; and Southeast Asia (Cambodia, Indonesia, Vietnam). The more stagnant economies are in Europe, including all European members of the G8 (Italy, Germany, France, Russia). The U.K., Canada and the U.S. are not far behind, though, as is the case with the remaining BRIC — Brazil. By this measure, Japan is the second most stagnant country in the world after Venezuela (see Figure 2).

FIGURE 2 HIGHEST AND LOWEST GDP GROWTH RATES TO 2030

Selected economies in the top 20 (highest first)	Selected economies in the bottom 20 (lowest first)
India	Venezuela
Cambodia	Japan
Bangladesh	Italy
Vietnam	Portugal
Sri Lanka	Germany
Pakistan	France
China	Belgium
Indonesia	Russia
Philippines	Denmark
Malaysia	Austria

(U.S., U.K., Canada, Spain and Brazil are in the bottom 50)

Source: Adapted from U.S. Department of Agriculture Report, June 2016: <https://www.ers.usda.gov/data-products/international-macroeconomic-data-set.aspx>

A second report is by PricewaterhouseCoopers. Released in February 2017, it focuses on the 32 largest economies in the world in terms of GDP, at purchasing power parity, and makes long-term projections to 2050. The report finds that the largest economy will be China, followed by India, the United States and Indonesia. Egypt and Pakistan join the list in 2030, and Vietnam and the Philippines in 2050, while Canada, Italy and Spain drop off in 2050 (see Figure 3). In short, this longer-term report confirms the findings of the Department of Agriculture report: that trade opportunities are moving in the direction of China, Southeast Asia and South Asia.

FIGURE 3 TOP 20 COUNTRIES IN GDP AT PURCHASING POWER PARITY

	2016	2030	2050
1	China	China	China
2	United States	United States	India
3	India	India	United States
4	Japan	Japan	Indonesia
5	Germany	Indonesia	Brazil
6	Russia	Russia	Russia
7	Brazil	Germany	Mexico
8	Indonesia	Brazil	Japan
9	U.K.	Mexico	Germany
10	France	U.K.	U.K.
11	Mexico	France	Turkey
12	Italy	Turkey	France
13	South Korea	Saudi Arabia	Saudi Arabia
14	Turkey	South Korea	Nigeria
15	Saudi Arabia	Italy	Egypt
16	Spain	Iran	Pakistan
17	Canada	Spain	Iran
18	Iran	Canada	South Korea
19	Australia	Egypt	Philippines
20	Thailand	Pakistan	Vietnam

(New to the list in yellow)

Gone from list:		
	Australia	Canada
	Thailand	Italy

Source: PricewaterhouseCoopers, *The Long View: How Will the Global Economic Order Change by 2050?* <https://www.pwc.com/gx/en/world-2050/assets/pwc-the-world-in-2050-full-report-feb-2017.pdf>

Security trends in selected regions

Overlaying international security considerations on areas of identified growth gives a more complete picture of where Canadian businesses should focus their efforts.

China and Southeast Asia. When it comes to trade with China and Southeast Asia, by far the most important security concern is growing tension in the South China Sea. China is a rising regional power in political and military terms and it wants to control what is going on in its neighbourhood. It has dramatically modernized its navy, including new ships, submarines and its first aircraft carrier. The submarines, along with a new shore-based, long-range, precision anti-ship ballistic missile, are well suited to preventing U.S. carrier groups from approaching Southeast Asian waters. America characterizes this as an “anti-access” strategy on the part of China, designed to keep U.S. naval forces outside the first island chain and possibly as far back as the second island chain (see Figure 4).

FIGURE 4



Source: Office of the Secretary of Defense, *Annual Report to Congress: Military Power of the People's Republic of China* (Washington, DC: Department of Defense, 2009), 18.

China seeks to secure its economic rise and for this, it is dependent on open sea lines of communication (SLOC) through the South China Sea and the Indian Ocean to the Middle East and Africa. It has recently broadened its military perspective from a doctrine of coastal defence to one of open seas protection (U.S. Naval Institute, 2015), and it is pursuing military capabilities like aircraft carriers, frigates and destroyers that are well suited to the SLOC mission. Most troubling is that this military buildup is being done while at the same time engaging in bullying behaviour in the region, and demonstrating a lack of regard for international law. China has confronted smaller countries, like Vietnam and the Philippines, over competing claims in the South China Sea, and it is building artificial islands deemed illegal by the Permanent Court of Arbitration in The Hague.

China has built military installations on the islands, a further indication of the region's overall militarization (Holmes, 2017).

The United States has responded to Chinese actions by pursuing military capabilities and strategies designed to counter China's, and by conducting freedom-of-navigation operations in the South China Sea. Intelligence agencies assess that regional tension will continue to increase as countries pursue competing claims in the area (Clapper, 2016a, 16). The commander of the U.S. Pacific Command has stated pointedly that the U.S. "will not allow shared domains to be closed down unilaterally" (Panda, 2016). Although we hear a lot about peer competition directly between the U.S. and China, for some the greater risk is that a smaller conflict in the region will escalate to U.S. involvement (Goldstein, 2013). Conflict that spills over into war would directly affect Canada's future commercial opportunities in this region.

South Asia. Some of the biggest economic opportunities of the future could lie in South Asia. India is especially important in commercial terms and, according to the reports cited here, there is likely to be significant growth in Bangladesh and Pakistan. Yet, there is a multitude of security concerns in the region. The maritime-based geopolitical competition of Southeast Asia is extending into the Indian Ocean. The Chinese navy operates a growing number of ships and submarines in the Indian Ocean, and it has established a footprint in several ports rimming the Indian Ocean, as well as one in Pakistan. Some observers refer to this latter development as a "string of pearls" strategy for increasing China's regional influence (Baker, 2015). For India, there is a perceived Chinese aggressiveness in the Indian Ocean (Clapper, 2015a, 22), to the degree that China's activities have prompted India and the U.S. to share intelligence information on submarine movements (Singh, 2017).

Of still greater concern in the region is the historic and ongoing tension between India and Pakistan (CSIS, 2016, 5), both nuclear powers, and especially the security situation within Pakistan. India views Pakistan as a direct terrorism threat and a source of regional instability (Clapper, 2015b, 21). Pakistan struggles domestically with violent Islamist militants. Moreover, it has recently added small and highly transportable tactical nuclear weapons to its arsenal as a hedge against Indian conventional military superiority. Because smaller, short-range weapons are easier to steal, a major U.S. and Western concern is that nuclear weapons could fall into the hands of radicals (Brunnstrom, 2015). Meanwhile, Bangladesh's internal politics are such that U.S. intelligence expects transnational terrorist groups will expand their presence in the country (Clapper, 2016b, 27). Ongoing if not increasing instability in the South Asian region will hinder Canadian business's ability to take full advantage of potential commercial opportunities.

MAPPING COUNTRIES AND REGIONS

This brief discussion has focused on the security environment in China, Southeast Asia and South Asia because, based on projected GDP growth over the coming decades, these regions may present Canadian business with the greatest economic opportunity. A detailed analysis could look more closely at these regions as well as assess other regions of the world, providing an overall picture of the global nexus of opportunity and risk. Figure 5 below gives just one possible outcome of such an assessment, overlaying "degree of security risk" onto "level of future economic opportunity".

FIGURE 5 OPPORTUNITY-RISK MATRIX

High	<p><i>Focus here</i></p> <p>*China *India</p> <p>*Brazil *Southeast</p>	<p><i>Consider, but buy political risk insurance!</i></p> <p>*India</p> <p>*Mexico Asia</p> <p>* Pakistan * Nigeria * Bangladesh * Egypt</p>
	<p><i>Consider</i></p> <p>*Europe G7 members *Japan</p>	<p><i>Drop</i></p> <p>*Russia</p> <p>*Africa *Middle East</p>
Low	<p>Low <i>Degree of Security Risk</i> High</p>	

According to this matrix, China and India present the strongest future opportunity for Canadian business (Gov't. of Canada Travel Advice, 2017). These countries are located at a medium security risk because, while they have basic control over what happens within their national borders, they face the security concerns outlined above. Parts of India belong on the high-risk side of the line, as one moves northwest and northeast to the Pakistani and Myanmar borders respectively, due to terrorist activity and insurgency that cross borders into India. On the Pakistani side, developments are also linked to the ongoing instability in Afghanistan.

Brazil also falls in the top left block, but at a lower level of opportunity because of its projected slow GDP growth. Southeast Asian countries like Cambodia, Vietnam and the Philippines are well above the line in terms of opportunity, but they straddle the line of security risk. There are internal risks such as terrorism in the Philippines to consider, along with regional concerns brought on by Chinese behaviour. Mexico has significant potential but is very dangerous in some areas, especially the north and west, due to high levels of violence linked to organized crime.

Egypt and Nigeria have strong potential but are, and will continue to be, dangerous places to operate. Egypt faces a persistent threat of terrorist and militant activity both in the Sinai and in mainland Egypt, while Nigeria struggles with internal threats from groups that have pledged allegiance to Islamic State (Clapper, 2016c, 25, 28). Growth rate trends suggest that many countries of sub-Saharan Africa will be promising trading partners of the future and therefore Africa approaches the middle line on the matrix. Yet, much of the continent is racked by failed states and terrorist activity that is unlikely to end or be resolved any time soon. The Middle East presents relatively limited economic opportunity (the region would benefit from individual analysis of various countries) and is the site of longstanding, intractable international conflicts. Broadly speaking, market risk in Africa must be seen in light of the progressive spread of Islamic State, a

byproduct of the American intervention in Iraq in 2003 and the subsequent American departure (Jones et al., 2017) from Iraq to Syria to the African continent, including the Sinai, Libya and beyond. The 2011 intervention in Libya was a significant facilitating factor.

Economic and security trends suggest that Canada's traditional trading partners in Europe and Japan will be relatively stagnant but secure places to operate. Yet, a safe security environment cannot be taken for granted: Eastern Europe faces the threat of a Russian bear that in the past decade has waged war in Georgia and Ukraine, while Japan contends with repeated missile launches from the unstable regime in North Korea. Russia is projected to have low GDP growth over the coming decades, in part because of its declining population, and is a dangerous place to do business in various pockets around the country. It has staked much of its growth on the opening waters of the northern sea route, but sees China as a major competitor for access to the promising sea lanes (Blank, 2015).

Where countries and regions should fall on this matrix is open to debate and to a detailed, comprehensive and rigorous analysis. The purpose here is simply to find a way to think in general terms about the intersection of international conflict and trade.

CONCLUSION

Global Affairs Canada does extensive analyses of regions of the world to provide advice to Canadian businesses on where they can best pursue economic opportunities. EDC and its cousin, CCC, examine an extensive list of factors to determine political risk in foreign markets. However, to date, assessments by Global Affairs/ITC, EDC, CCC and BDC have focused primarily on the black box of a state and have not explicitly included an international security component that takes as its starting point state-to-state relations. We may know the market conditions inside China's and India's borders, but have we accounted for the impact on regional markets of growing great power competition among the United States, China and India? We may think that Europe is a stable place to do business, but what is the likelihood Russia will send forces into the Baltics and present NATO with a fait accompli? Examining countries and regions of economic interest through an international security lens would provide an important window on the new security dimension of global commerce, further assisting Canadian business in harnessing future opportunities.

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