

THE ECONOMIC AND FISCAL UPDATE
NOVEMBER 2005

IMPLICATIONS FOR CANADIAN INTERNATIONAL COOPERATION

The November Economic and Fiscal Update launched the government's plan to secure Canada's long-term economic prosperity. This Plan substantially addresses the challenges for Canada of a competitive global marketplace and the country's interests in rapidly growing middle income countries (China, Brazil, etc.). Unfortunately the well-being of the global majority of the world's poor has no place in this Plan. The Update makes no mention of any new initiatives for aid to the poorest countries, let alone acknowledges the importance of a timetable to increase ODA to 0.7% of Canada's Gross National Income (GNI).

PROJECTING CANADA'S ECONOMIC PROSPERITY

The Economic Update projects significant growth for the Canadian economy for the next five years. Growth is projected to be around 5% in 2006 and 2007. Canada, alone among the G7 countries, is running a very strong fiscal budgetary surplus. With this growth, federal government revenue is expected grow from \$198.4 billion in 2004 / 05 to \$247.8 billion in 2010 / 11, even after the implementation of substantial tax cuts for individuals and corporations.

- ❑ Canada's Gross National Income (GNI) is expected to grow from \$1.3 trillion in 2005 to just under \$1.7 trillion in 2010. CCIC calculates that average per capita income for Canadians will increase from an estimated \$40,700 to \$49,200 in five years or by more than 20%. Since 1985, the gap between per capita income and per capita ODA in Canada has grown wider, with the former increasing by 125%, and the latter by less than 20%.
- ❑ For the first time the government projected a significant fiscal surplus. The November Update worked with a \$54.5 billion total fiscal surplus for the six years, 2005 to 2010. The government has also set aside an additional \$18 billion for a contingency reserve (which goes to pay down the debt if unspent) and a further \$13.5 billion for "economic prudence" in the later years of the decade. The latter presumably will be available for further allocation by the government in those years if economic circumstances permit.
- ❑ Of the \$54.5 billion projected surplus, program and tax spending announced in the November Update will reduce this surplus to \$15.5 billion (not counting the contingency reserve and \$13.5 billion for economic prudence). Future program spending, including increases for ODA, must come from this remaining surplus (and any additional unforeseen revenues in these years).
- ❑ The economic cost to the government of individual tax cuts from the February 2005 Budget and November Update will total \$41.5 billion over five years.
- ❑ The economic cost to the government of corporate tax cuts from the February 2005 Budget and November Update will total \$10.0 billion over the next five years.

IMPLICATIONS FOR CANADIAN ODA

While the Economic Update provided no new plans for increasing Canadian ODA, it did for the first time make available government projections of GNI and other economic indicators to 2010. Based on this information the Update confirms that the current commitment to increase aid by 8% each year to 2010 / 11 will fall significantly short of Canada's obligation to take all possible measures to achieve the MDGs.

- ❑ CCIC projects Canadian ODA in 2010 at about \$5,390 million. This amount would fall slightly short of the government's commitment to doubling Canadian aid between 2001 and 2010. Aid in 2001 amounted to \$2,900 million. Doubling this amount would result in \$5,800 million in 2010.
- ❑ With the exception of one-off increases in 2005 / 06 and 2006 / 07, Canadian aid performance will not likely move beyond 0.32% of Canada's GNI by 2010, well below the 0.5% target proposed by the June Standing Committee on Foreign Affairs Report to the House of Commons.
- ❑ CCIC has proposed that the government set out a timetable for ODA to reach 0.7% of GNI by 2015. The **additional** cost of this timetable up to 2010 is estimated by CCIC to be \$4.8 billion, easily affordable in the current fiscal context. With all recent attention to tax cuts, a 2002 CIDA-sponsored poll indicated that 57% of Canadians said that they would be prepared to pay one percent more in their taxes for foreign aid if all the money is spent on the world's poor.
- ❑ While there were no new measures for aid in the November Update, the Update confirmed that the government will add \$57 million to the 2005 / 06 International Assistance Envelope for the Pakistan earthquake. It also indicates that since the February budget an additional amount of \$198 million has been set aside in 2005 and 2006 for measures to aid Darfur, of which a portion will meet the criteria for ODA in those years. Also the government has set aside an additional \$622 million for the extended mission deployment for Afghanistan between 2005 and 2007, none of which will meet the current ODA criteria. These measures were all announced after, and in addition to, the February Budget, but prior to the November Update.
- ❑ With the one-off additions to Canadian ODA for 2005 / 06, already announced in the February 2005 Budget, Canadian ODA for this fiscal year will likely reach 0.34% of GNI (due to large debt cancellation for Iraq and several African countries expected this year).
- ❑ The NDP / Liberal Supplementary Budget Bill C-48 is noted in a Box Table in the Update. The government has counted new allocations for the environment and for education in the Update as meeting in full the commitments of this Bill in these areas. For aid (and housing) the Update notes that additional money is needed to meet the commitments of Bill C-48. However, for aid it is counting the allocation of \$57 million for Pakistan against the \$250 million for this fiscal year. It states that "the Government is committed to extend and deepen spending in these areas, particularly for affordable housing and on foreign aid. These expenses will be funded from the remaining planning surplus". The total remaining parts of the Liberal / NDP package are about \$1.7 billion over two fiscal years. The expected remaining surplus after the Update measures is \$1.6 billion in 2005 / 06 and 4.2 billion in 2006 / 07 (not counting the \$3 billion contingency in each year that goes to pay down the debt). If these projections hold, it is still possible that these commitments will be met, but the timing of their allocation seems to be totally at the discretion of the government.

POSITIONING CANADA IN THE WORLD THROUGH TRADE AND INVESTMENT PRIORITIES

This section of the Economic Update provides an overview of the priorities and imperatives for Canada in international trade and investment. The section is exclusively focused on achieving Canadian commercial and economic gains in a changing international context. There is no mention of either our commitments to address global poverty, or even how patterns of inequity and human development matter for Canadian long term economic well being.

- ❑ The Update underlines the importance to Canada of the current round of WTO trade negotiations. It incorrectly refers to these negotiations as the Doha Round, ignoring the formally title and purpose of the round: the Doha Development Agenda. It notes that the objective is an “ambitious result that will reflect the interests...of Canada’s business and agricultural communities”.
- ❑ While the US remains Canada’s most important market, the Update highlights new efforts to ensure Canadian business access markets in so called “emerging economies,” particularly China and India. \$485 million will be spent over 5 years in a new strategy to help Canadian firms in this regard.
- ❑ To ensure Canadian corporate activities in emerging markets also foster “social and environmental” goals, \$12 million over five years will be spent to create a new Corporate Social Responsibility Centre that will, “in partnership with the private sector”, provide advice to Canadian business on corporate social responsibility issues. Providing training and support and to achieve this goal is important; however, such promotional activities do not adequately deal with the government’s responsibility to protect human rights, including when they are violated by non-state actors such as corporations.
- ❑ For our NAFTA relationship, the Update emphasizes the commitment to an updated partnership, including the need to streamline regulatory processes, (despite considerable citizen concern at the downward harmonizing of standard on sensitive areas like environmental regulations, food safety, etc. – this may imply). There is no mention of the need to review Chapter 11 on investment and its controversial investor-state dispute settlement mechanism, which has been the subject of considerable parliamentary discussion this year.
- ❑ The Update repeatedly asserts that open markets lead to prosperity, as an uncontroversial contention, citing OECD studies of openness and income. This denies the fairly well documented debate among economists and academics regarding the merits and timing of liberalization. Many studies, pointing to the historical evidence of economic growth in developed and developing economies, contend that the sequence is the reverse; as economies grow and diversify they slowly open. This indicates the relationship between openness and prosperity is correlated, but not in the causal sequence claimed in the Update to justify Canada’s uncritical push in the WTO negotiations for liberalization.

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