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## Beyond LAVs: corruption, commercialization and the Canadian defence industry

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### ABSTRACT

The Trudeau government's decision to uphold a 2014 contract to sell CAD \$15 billion worth of military equipment to Saudi Arabia has attracted considerable controversy in Canada, garnering both opposition and support. Yet public discussion of the Canada–Saudi light armored vehicle (LAV) contract has sidestepped the most serious problems raised by Canada's escalation of its involvement in the international arms market through this sale: the violence and corruption of the international arms trade, to which this sale contributes; the subordination of Canadian foreign policy and of international peace and security to commercial aspirations and the short-term interests of electoral politics, which this contract evinces; and the questionable importance of the Canadian defence industrial base, upon which arguments in favor of this contract rely. Given both the political and economic salience of defence industry jobs in the 2015 election and the export-driven nature of Canada's defence industry, Canadians should not be surprised by the Canada–Saudi LAV deal. The real question, however, is whether Canada should support its own defence industrial base, whatever the costs and contribution to corruption – or not.

### RÉSUMÉ

La décision du gouvernement Trudeau de respecter un contrat de vente d'équipement militaire à l'Arabie Saoudite, datant de 2014 et d'une valeur de 15 milliards de dollars canadiens, a entraîné une controverse considérable au Canada, en suscitant à la fois l'expression d'une opposition et celle d'un soutien. Cependant le débat public autour du contrat entre les deux pays concernant le véhicule blindé léger (VBL) a éludé les problèmes les plus graves soulevés par l'escalade de l'implication du Canada sur le marché international de l'armement représentée par cette vente : la violence et la corruption du marché international de l'armement, auxquelles contribue ce contrat ; la subordination de la politique étrangère canadienne, de la paix et de la sécurité aux aspirations commerciales, et aux intérêts à court terme visés par les politiques électorales, que ce contrat met en lumière ; et l'importance discutable de la base industrielle de défense canadienne, sur laquelle reposent les arguments favorables à ce contrat. Étant donné l'importance à la fois politique et économique accordée aux emplois dans l'industrie de défense lors des élections de

### KEYWORDS

Canada; arms trade; foreign policy; electoral politics; defence industry

2015, et le caractère axé sur les exportations de cette même industrie au Canada, les Canadiens ne devraient pas être étonnés de l'accord canadien-saoudien sur le MBL. La vraie question, cependant, est de savoir si le Canada doit soutenir – ou non – sa propre base industrielle de défense, quels qu'en soient le coût et la contribution à la corruption.

## Introduction

Canada's CAD \$15 billion sale of light armored vehicles (LAVs) to the Kingdom of Saudi Arabia is the largest military export contract in Canadian history. Since it was announced in 2014, the contract for General Dynamics Land Systems-Canada (GDLS-C) to produce and provide Saudi Arabia with "armoured combat vehicles that will be equipped with machine guns, medium-calibre weapons or even powerful barrels capable of firing 105 mm shells or anti-tank missiles" (Chase 2016b) has rarely left the news, generating considerable controversy in Canada. On the one hand, supporters have hailed this contract as an important accomplishment of former Prime Minister Stephen Harper's Conservative government, a boon to Canada's economic and political interests at home and abroad. Proponents expect that this sale could create 3000 new jobs in Canada over the next 14 years, promote economies of scale for more affordable domestic procurement by the Canadian Armed Forces, and support new research and development, innovation, and additional export opportunities for Canada's defence industry (Cianfarani 2016, Juneau 2016, Perry 2016). Moreover, supporting the national security of Saudi Arabia – a crucial oil-producing ally of the United States in a volatile, strategically important region, whatever its reputation for corruption, intolerance and support for Islamic extremism – is a good move for Canada–United States relations and promotes governance and stability in the Middle East (Crowley 2016, Juneau 2016). This landmark arms sale establishes Canada as a global player in the international arms market, supporters claim; encourages much-needed military self-sufficiency; and promotes Canadian national security (CADSI 2016a, Perry 2016).

In spite of these alleged benefits, the LAV contract has also inspired considerable outrage among Canadians. Public opposition has been clear: 73 per cent of poll respondents in June 2016 opposed the sale of Canadian military goods to Saudi Arabia to some degree (cited in Chase 2016a). Impassioned op-eds have castigated the deal as a cynical choice of commerce over human rights (Epps 2014, Jaramillo 2015, Chase 2016b, Yakabuski 2016) and "a terrible mistake" through which Canada will damage its international reputation, its chances for a seat on the United Nations (UN) Security Council, and its influence in international affairs (Byers 2016). Prompting much of this criticism is Canada's seemingly incongruous position as arms supplier to "one of the world's most brutal and repressive dictatorships" (Yakabuski 2016). In addition to its notorious domestic human rights abuses (Amnesty International 2016), Saudi Arabia also has allegedly participated in scores of unlawful, civilian-targeted air strikes against homes, markets, hospital, schools and mosques in Yemen (Human Rights Watch 2016). Arms sales to states that target civilians and breach their human rights obligations violate both Canadian and international law.

Saudi Arabia is, furthermore, especially notorious as a source of significant corruption in the arms industry. The now-infamous multi-billion pound United Kingdom–Saudi arms deal known as *al-Yamamah*, for example, is marked by extensive transnational bribery, secret corporate slush funds, and illicit offshore payments that have implicated both Saudi officials and elements of the United Kingdom’s political system in ongoing “deception, duplicity and knowing violations of law” for decades (Dawber 2010, see also BBC News 2008, Leigh and Evans 2010, 2006). In this context, and as Canada has a poor record of enforcement on laws to curb transnational bribery and corruption, the Canada–Saudi LAV sale casts serious doubt on Canada’s contribution to global efforts to curb corruption (Gutterman 2016, OECD Newsroom 2011).

Given these concerns, opponents of the Canada–Saudi LAV deal ask: why is the newly elected Liberal government of Justin Trudeau selling arms to Saudi Arabia? Having inherited the contract from the preceding Conservative government, and despite having supported the sale while campaigning, many critics expected the Liberals, once in power, to quash the sale. Instead, the Liberals refused to cancel the contract, inspiring critics to claim that the Liberals “lied” to Canadians about their involvement in seeing the deal to completion (The Guardian 2016). Indeed, not only did the Liberal government approve the export permits associated with the sale, it amended Canada’s export regulations and removed previous human rights-related restrictions to make the sale permissible, *post hoc* (Chase 2016c). Framed in this way as an apparent contradiction of Liberal party promises, its avowed human rights-oriented liberal-internationalism, and its self-promoted “sunny ways” image of positivity, optimism and hope (Liberal Party of Canada 2016), Liberal party support for the Canada–Saudi LAV contract seems puzzling.

The second question for opponents is: why is *Canada* selling arms to Saudi Arabia? Leaving aside party politics, the conundrum here rests on assumptions about Canada’s national identity and its role in the world as a human rights-promoting beacon of liberal internationalism (Paris 2014), constitutional democracy and good governance – ostensibly “the core values that define Canada’s character as a nation” (Project Ploughshares 2016). Canada, in short, is too “good” to be selling arms to bad actors; thus, the Canada–Saudi LAV deal demands explanation.

In our view, these concerns are misplaced. Despite the “withering criticism” (Chase 2016c) evident in the press, Canadians should not be surprised by this deal. The Canada–Saudi LAV sale itself represents neither a moral corruption of Liberal (and Canadian) political values, nor a significant shift in longstanding Canadian policy priorities. It is, rather, a clear example of how government support of Canada’s defence industrial base necessarily entails the promotion of corruption and violence abroad, and accepting the risk of the “blowback” of these problems at home (Feinstein 2012). Our analysis reveals that the Canada–Saudi LAV sale is overdetermined by a panoply of political and economic incentives driving Canada’s turn to military exports, including domestic electoral politics and the political economy of the arms trade itself. Rather than merely encouraging hand-wringing over a sale of weapons to a “distasteful” and corrupt regime, we propose another question for Canadians to consider: *Should* Canada be a global player in the international arms trade in order to sustain its domestic defence industry?

Our answer is, probably not. At the very least, the question ought to be debated. The international arms trade undoubtedly spreads violence, corruption, political instability and human rights abuse. It exacerbates protracted conflicts and creates war economies

(Duffield 2000) that sustain transnational organized crime and transnational terrorism. In the face of these negative externalities, Canada's CAD \$15 billion sale of military equipment to Saudi Arabia evinces a subordination of foreign policy, national security, and the requisites of international peace and security to commercial aspirations and to the short-term interests of electoral politics. Against the standard, unchallenged argument that Canada needs a defence industrial base for its own security – in which case exports to human rights-abusing countries in strategically volatile regions are not just par for the course but an economic and political necessity (Perry 2016) – our analysis suggests the need to rethink such priorities.

### ***Why are the Liberals selling LAVs to Saudi Arabia?***

The Canada Commercial Corporation – Canada's international government-to-government contracting organization – negotiated and concluded the Canada–Saudi LAV deal on behalf of GDLS-C during the tenure of Prime Minister Harper. Announced with great fanfare in 2014, the contract matched, promoted and confirmed the Conservative party's stated approach to Canadian politics and foreign policy. Inspired by the right-of-center American Republican party (Turcotte 2012), and having “decimated” their opposition in the 2011 election (McMillan 2011, p. 135), in 2014 the Conservatives were in full pursuit of their goal of shaping Canada as an outward-looking, entrepreneurial, exporting nation (McMillan 2011, p. 139). Unhampered by Canada's notably lax anti-corruption enforcement (Sher 2011) the Conservatives' 2013 Global Markets Action Plan had identified Saudi Arabia as a priority market (Global Affairs Canada 2013) and the CAD \$15 billion LAV contract represented a noteworthy increase over the previous year's \$900 million in trade (Gormisky 2014). Moreover, given the “totemic value” of defence spending (McInnes 1998) and military interests more generally (Dowd 2001) for conservative parties, the pursuit of this contract – and military exports more generally – by the Harper Conservatives is unsurprising.

By these same measures, the Liberal government's 2016 decision to complete the sale seems, on the surface, unexpected. The Liberals *could* have canceled the contract; export permits had not yet been approved at the time of the 2015 election. Given public opposition to the sale and its surrounding controversy, the public would likely have supported a Liberal cancellation. This would also have been an opportunity for the Liberal Party to clearly differentiate itself from the previous government. While it is not news that “governing parties sometimes pursue policies that seem starkly at odds with what they have [claimed are] their purposes and priorities” (Bow and Black 2008, p. 7), the Canada–Saudi LAV sale is a particularly striking example of this incongruence. When, fresh from electoral victory, Prime Minister Justin Trudeau proclaimed that Canada's “compassionate and constructive voice in the world ... was back” (quoted in Bronskill 2015), his jubilant rhetoric suggested values, not economics, would guide his government's policy. As one commentator put it sourly, “the rigidly autocratic and puritanical Saudi kingdom is not a model of Trudeau-esque hugs-and-singalongs around the national campfire” (Crowley 2016). Notwithstanding these inconsistencies, however, upon closer inspection Liberal party support for the Canada–Saudi LAV becomes less puzzling.

The political impact of defence jobs is key to explaining Liberal support for the 2014 Canada–Saudi LAV contract. The sale is expected to support about 3000 manufacturing

jobs, “with about 40% of the supply base in Southwestern Ontario” (Richmond 2014). This employment is both economically and politically important. Many jobs in the defence industry are relatively sophisticated engineering and technical positions that pay well, earn good foreign exchange and generate a lot of support in affected communities (Salinas 2016). In addition, these manufacturing jobs are in a protected labor market. Unlike similar jobs in the auto sector, for example, reasons of “national security” may exempt defence jobs from international free trade agreements; they are unlikely to be exported to less-expensive labor markets overseas (Repinski *et al.* 2013). Their linkage to “national security,” furthermore, enables conservative parties in particular to court unionized defence workers without annoying the party’s typically anti-union base.

Since the turn of the millennium, and mirroring economic trends in other Organization for Economic Co-operation and Development (OECD) states, the manufacturing sector in Canada has been in precipitous decline, and is not expected to recover (Bernard 2009). Large numbers of manufacturing jobs have disappeared, replaced by less stable, largely part-time employment in the service industry. In Canada, the “rust belt” of Southern Ontario has been particularly hard hit by these trends, making the employment gains associated with the Canada–Saudi LAV sale especially attractive. London, Ontario – home to the GDLS-C plant that will be producing LAVs for Saudi Arabia – contains four federal ridings, and is surrounded by six others; it is a battleground in federal politics. In both 2008 and 2011, after targeted campaigning by the Conservative party (McMillan 2011), several London city ridings that had been considered traditionally Liberal elected Conservative representatives. In 2015, it seemed as if neither party could win a majority in Parliament without taking these Southwestern Ontario ridings (Walcom 2015). The Liberal promises to uphold the LAV deal appear to have paid off; in the 2015 federal election, Liberal candidates wrested victories from Tory incumbents in two of the London city ridings. In sum, Canadians should not be surprised that the Liberals declined to cancel this contract. This deal is both consistent with longstanding Liberal party policies, and of immediate political expediency to the current party’s government.

### ***Why is Canada selling LAVs to Saudi Arabia?***

If it is not surprising that the Liberal Party, in particular, is going ahead with the Canada–Saudi LAV sale, the question remains: why is Canada providing military equipment to a notoriously corrupt, oppressive, anti-democratic, militarily aggressive, human rights-abusing regime (Carapico 2015) in the first place? The moralism underlying this question may reflect an ignorance of Canada’s longstanding role in the international arms trade. In the context of Canada’s history as an arms exporter, including its previous sales of military equipment to Saudi Arabia (Thompson 1994), the current LAV contract is hardly out of character.

Canadians may not realize that Canada boasts a relatively robust defence industry, encompassing more than 700 companies and 63,000 jobs across the country, with CAD \$10 billion in revenues (CADSI 2016b, cited in Juneau 2016).<sup>1</sup> Canadian governments have long sought to nurture and support this domestic defence industrial base, for reasons of economic growth and the pursuit of “security independence” (Stone 2008). Both government and industry tout the many positive spillovers of defence manufacturing in the economy and Canadian society, including investments in higher education,

technological innovation, social capital, economic growth, sovereignty and, perhaps surprisingly, environmental protection (Government of Canada 2005, Public Works and Government Services Canada 2013). Government procurement contracts for Canadian-made military equipment also frequently include offset requirements, which commit defence manufacturers to investment in local subcontractors and suppliers (Brauer and Dunne 2004), ostensibly an important source of value for local Canadian economies.

No country can create or sustain a self-sufficient defence industrial base without significant government support, whether through subsidies for research and development (R&D), production, employment, or the purchasing of entire production runs. As such, the global arms market writ large is fundamentally illiberal, distorted due to national security prerogatives by government protectionism, duplication and geopolitical restraint. Most countries subsidize and support their own defence industries through a variety of localized “trade diversion” policies, meaning that opportunities for significant market access, particularly in advanced democracies, are limited (Markowski and Hall, 2010). Canada, as a small and strategically unimportant nation in its own right, cannot count on its prestige as a security or economic partner to drive demand for its products. Instead, the market for Canadian defence products is even slimmer than it is for other arms exporters, since it has no real “neighbors,” either politically or geographically, who might be incentivized into purchasing significant quantities of Canadian defence goods.

Moreover, since the end of the Cold War, as defence budgets have shrunk and Western countries are no longer willing to buy the entire production runs of their defence manufacturers, the political economy of the arms trade is such that *exports* are essential to the sustainability of national defence industries. In Canada, roughly 50 per cent of defence/aerospace sector revenues comes from exports (KPMG 2012). In the absence of own-government purchase orders, arms exports create economies of scale for domestic military acquisitions, promote domestic employment, and fund valuable R&D; in short, they are essential to the survival of most domestic defence industries (Perry 2016). Amidst plummeting oil prices, reduced demand from China for natural resources, and a severely challenged manufacturing sector in central Canada, the defence sector presents a seemingly irresistible opportunity for a profitable, new export industry with many downstream benefits. While Canada does not rank highly on exports of complete weapons systems, it is a prolific producer of weapons systems components and subsystems, and successive Canadian prime ministers – both Liberal and Conservative – have pursued export contracts for its defence and aerospace manufacturers.<sup>2</sup>

The same rapid post-Cold War reduction in Western defence expenditure that caused countries to emphasize defence export markets has also required countries to look outside their traditional markets for selling arms. Today, the major buyers of defence products are developing countries, often with unstable regimes, questionable human rights practices, and internal conditions of violent unrest. As a case in point, Saudi Arabia is the second largest arms buyer in the world today after India. Saudi Arabia’s imports – which comprise 27 per cent of total arms transfers to the Middle East – increased by 275 per cent between 2011 and 2015 over 2006–2010 (Fleurant *et al.* 2016, pp. 7–8). Saudi Arabia’s ongoing intervention in Yemen, begun in 2015 alongside a coalition of Arab states including Egypt, Qatar and the United Arab Emirates, has both driven and been facilitated by this rapid increase in arms purchases. Canada’s LAVs, fitted with Belgian-made turrets (Binnie 2016), stand alongside a range of weapons on order to Saudi Arabia, including 14 combat aircraft from the United



Kingdom and 150 combat aircraft (plus thousands of air-to-surface missiles and anti-tank missiles) from the United States of America (Sorenson 2014). Given the size of the Saudi market for arms, the limits of Canada's domestic defence market, and the necessity of exports, it seems that if Canada wants a defence industrial base, it needs Saudi Arabia to be its client.

This is nothing new; Canada has been pursuing defence export contracts in Saudi Arabia and similar markets for decades, and this pursuit has meant extensive government support for securing such deals. For example, in 1994, Canada removed human rights considerations from its feasibility analysis, and sold sophisticated weapons to Thailand at a time when other Western countries had ceased exports to the country due to its links to the repressive regime in Burma and the Khmer Rouge in Cambodia (Todd 1994). Under Liberal Prime Minister Jean Chrétien, trade with less-developed nations was promoted aggressively, and a relaxation of scrutiny led to arms sales being approved to Pakistan, Algeria, Egypt and Saudi Arabia, in spite of "persistent human rights abuses" in those countries (Todd 1994). In 1994, Chrétien grumbled about the restrictions barring Canada from Israel's arms-hungry market, with the result that CAD \$4–5 billion a year of sales were going to the United States, instead – an early example of the "if not us, then someone else" argument supporting the 2014 Saudi LAV sale (Todd 1994). In the 1990s, as now, the London, Ontario-built LAVs were a cornerstone of this increased trade, thanks in no small part to the sale of more than 1000 vehicles to the Saudi Arabian National Guard in 1994, part of an export surge that saw Canadian military exports grow 48 per cent in 1994 over 1993 (Thompson 1994). This sale was negotiated after the London production line seemed at risk of shutting down, following the completion of a large order for the American military; since 1991, GDLS-C has sold more than 1800 such vehicles to the Kingdom (Epps 2014).

More recently, arms exports have again increased dramatically after the Conservative majority victory in 2011, driven by sales to countries like Bahrain, Egypt, Algeria, Mexico and Pakistan (Blanchfield 2013). An analysis by the Canadian Press found that the overall defence sector, which stayed relatively constant from 2004 to 2011, grew by roughly 4 per cent in 2012, in spite of massive reductions in the proportion of sales to traditional allies such as the United States, the United Kingdom and Spain (Blanchfield 2013). This increase came about as the Conservative government began to emphasize what it called "economic diplomacy" – that is, ensuring "that all Government of Canada diplomatic assets [were] harnessed to support the pursuit of commercial success by Canadian companies and investors" (Global Affairs Canada 2013) – in its foreign policy. To do so, the government planned to target developing countries whose markets were of particular interest to "small and medium-sized enterprises" like Winnipeg's PGW Defence Technologies, whose military-grade rifles have been found entangled in the bloody Yemeni civil war via their legal export to Saudi Arabia. And, as in the 1990s, a decline in sales to traditional partners seems to be behind the recent push for increased sales to less salubrious countries. In 2014, a leaked briefing note revealed that the Conservative addition of Brazil, Chile, Peru and South Korea to the Automatic Firearms Country Control list – the "friendly" list for arms sales – was explicitly prompted by the drawdown of Afghanistan war-related sales in traditional markets, particularly the United States (Berthiaume 2014b). In sum, the current Canada-Saudi LAV sale represents the continuation of long-standing Canadian policy to promote arms sales abroad.



### ***Should Canada be a global player in the international arms trade, in order to sustain its domestic defence industry?***

Critics of the Canada–Saudi LAV sale have focused their objections on the way this contract seems to sidestep Canada’s formerly robust and human rights-sensitive export control regulation (Project Ploughshares 2016); its lack of compliance with international law and human rights (Byers 2016); and its hypocrisy (Guardian 2016, Yakabuski 2016). While these objections are valid, they are largely beside the point. In our view, the problems with this contract about which Canadians should most be concerned are three-fold: the negative externalities of the arms trade writ large, to which this contract contributes; the subordination of foreign policy and of the requisites of international peace and security to commercial aspirations and the short-term interests of electoral politics, which this contract evinces; and the questionable importance of the Canadian defence industrial base, upon which arguments in favor of this contract rely.<sup>3</sup>

#### ***Negative externalities of the arms trade***

Putting aside the details of the particular contract, an important problem raised by this LAV sale is the way in which it constitutes significant participation in the global arms trade itself. The arms trade spreads violence, political instability, human rights abuse and corruption (Feinstein 2012, Guest 2016, Transparency International (UK) 2001). Conventional weapons and light arms procured by states through the legal international trade proliferate to violent non-state actors including transnational criminals and terrorists, and fuel protracted civil conflicts and the war economies which sustain them (Duffield 2000, United Nations 2015). In a very direct sense, the buying and selling of arms on the international market affect the lives – and deaths – of billions of people around the world (Stohl and Grillot 2009, p. 3).

In addition to the violence produced directly by the proliferation of weapons and military equipment, the international arms trade is rife with endemic bribery, corruption and unethical business practices (Williams 2008, Feinstein *et al.* 2011, Feinstein 2012). Conducted in an opaque market shrouded in government and commercial secrecy and often brokered through unethical agents seeking lucrative commissions, “the problem with arms exports,” as one report put it, “is that they often go to unreliable governments in unstable parts of the world, with the deals smoothed by bribes” (Economist 2002). While we do not have direct evidence of Canadian-paid bribes for weapons sales or export promotion, evidence abounds of corrupt payments made by parent companies in the aerospace and defence industry (Jarrett and Taylor 2010, Transparency International 2013, Guest 2016). Weapons sales exacerbate kleptocracy, grand corruption and anti-democratic practices in areas already affected by chronic political instability, sluggish economic growth, human rights abuses and widespread corruption (Bondi 2004, p. 43). This corruption in turn feeds political instability, sustains poverty and inequality, undermines public trust in society’s institutions of governance, leads to social unrest, and supports the proliferation of transnational crime and terrorism (Gutterman 2016). Billions of dollars in corruption-driven arms procurement across the developing world divert public funds that might otherwise be put to use toward sustainable development, poverty alleviation, public health promotion or environmental governance (see for example Holden and Van Vuuren 2011). And, even when arms sales may be scrupulously above-board, military

spending and arms procurement expenditures themselves are often detrimental to broader economic development (Brauer and Dunne 2002).

These negative externalities of the arms trade often undermine the very security that defence industries purport to strengthen, both abroad and at home. Blowback – the unintended and unexpected negative consequences of weapons sales (Feinstein 2012, pp. xxii–xxiii) – is significant for both the purchasers and sellers of weapons. For arms-producing states such as Canada, the risk is more grave than just the public distaste requiring us to “hold our collective noses” (Juneau 2016). Participating in the arms trade means contributing to the geopolitical conditions that have necessitated Canadian involvement in foreign wars, produced intractable and destabilizing civil conflicts in strategically important regions, and created massive refugee flows. The corruption and opacity of the arms trade also promote the transnational spread of crime, terrorism and political extremism, which undermine our public safety and “homeland security” (Shane 2016). In Nigeria, for example, the country’s military – bolstered by Canadian weaponry (York 2015) – has allegedly been selling arms to Boko Haram militants (Associated Press 2016).

In sum, the international arms trade poses one of the greatest threats to international peace and security today. While the arms trade might be “good business” for the companies involved (and for the regions in which defence manufacturers produce their goods), it is a business that exposes Canada to both geopolitical and homeland security dangers, vitiates Canada’s international reputation, hampers its ability to contribute to international peace and security, and trades jobs in select areas within Canada for the security and prosperity of all Canadians.<sup>4</sup>

### *Subordination of foreign policy to commercial aspirations and electoral politics*

The international arms trade thrives today largely because of the degree to which military transfers in general have become a government-sponsored commercial domain rather than a function of military policy (Bondi 2004). In this new market-oriented military industrial environment, security concerns are less important than commercial aspirations (Markusen 2004, cf. Dunne and Sköns 2011). Among other distortions, the commercialization of the arms industry has produced faster weapons proliferation, world over-spending on arms, competitive disadvantages for the non-arms sector, and the rise of what scholars have called an “international military industrial cartel” in which the commercial interests of military-industrial firms have captured the arms policymaking apparatus (Markusen 2004, pp. 66, 81–83). As one critic put it, Canadian arms exports are “being driven by the companies that build and sell the weapons” (Steve Staples, cited in Berthiaume 2014a). As evinced by the CAD \$15 billion sale of LAVs to Saudi Arabia, this policy has also been extended to the subordination of international norms to short-term electoral interests.

It bears noting that the Trudeau government’s compromising of foreign policy and security concerns in favor of commercial interests is also bad economic policy. Offsets, a common commercial inducement for weapons contracts intended to support defence industrial firms as well as to promote sales abroad, are a particularly pernicious tool of the arms trade. Offsets produce “distortions in the structure of firms, industries, and the composition of national spending for both buyer and selling countries” (Markusen 2004, p. 83). Agreements by sellers to purchase goods, transfer technology or invest in buyer-country enterprises in exchange for making the sale (cited in Markusen 2004, p. 69, US

General Accounting Office 1998), offsets – whether in domestic or foreign procurement contracts – do not overcome the welfare-diminishing effects of military expenditures that finance the arms trade in the first place (Dumas 2004). In Canada, for instance, defence industry offset commitments are frequently left unmet. In 2014, then-Minister of Public Works Diane Finlay identified billions of dollars’ worth of unfulfilled investment promises defence firms had made in exchange for government contracts (Berthiaume 2014b). Even when offsets are delivered as contracted, it is questionable whether the gains from offsets make up for the economic and political cost of subsidizing and supporting the defence industry, nor for the “made-in-Canada premium” paid on major capital projects like warships, conservatively estimated even by industry proponents to be at least 10 per cent (Lerhe 2016).

### *Questionable importance of a defence industrial base in Canada*

The third issue Canadians should be concerned about in connection with the Canada–Saudi LAV deal is the unexamined assumption that Canada needs its own defence industrial base (CADSI 2016a). It is this assumption that underlies any argument that the negative externalities of the arms trade are simply the costs of maintaining national security in today’s complex world. Is selling arms to oppressive and militarily aggressive regimes a necessary, if distasteful, reality (Juneau 2016, Perry 2016)? Classical Realist arguments say that in times of crisis and war individual states must be able to provide for their own security and survival (Mearsheimer 2001, 1994, Waltz 1979). International institutions such as the UN, military alliances such as the North Atlantic Treaty Organization, and close interstate affinities like that between Canada and the United States cannot be relied upon when a state’s sovereignty and survival may be at risk. Thus, Canada ought to be prepared to independently provision, train and mobilize a military defence force. If so, this argument goes, Canada needs a self-sufficient military industrial base; thus exports to countries like Saudi Arabia become a necessary evil.

For Canada, the evidence to support this argument is unconvincing. First, one must question the likelihood of any threat against which Canada could not rely on the security umbrella of its closest neighbor and most powerful ally, the United States. Is it reasonable to imagine – much less prepare for – a situation in which Canada were under territorial attack, unable to provide resources for its military defences, and *not* aided by the United States? Indeed, one enduring theme in the discussion of Canadian military and defence policy is the need for Canada to provide “defence against help” (Ørvik 1973, Lagassé 2010) – that is, to do a good enough job defending Canada so that the United States doesn’t feel compelled to step in and do it for us, given the importance of Canada to American homeland security. Perhaps the most feasible scenario in which Canada would be under existential threat is one in which the United States itself is the aggressor against Canada. In such a case, however, the argument in favor of Canada’s military-industrial independence would be moot; even a trebled Canadian defence industry would crumble against the American military machine.

On the contrary, a reasonable threat assessment would suggest that Canada can (and should) rely on the American security umbrella, instead of striving to maintain its own defence industrial base. In fact, throughout the post-World War II era it has largely done so. Canada’s defence industry is already deeply integrated with that of the United States, and depends almost completely upon the United States for its survival. The two

countries' *Defense Production Sharing Agreement*, a free-trade arrangement for defence goods in place since 1959, has created a North American defence industrial base in which Canada is primarily a producer of sub-systems and components for the American market (Crosby 1997, Salinas 2016). As a result, the companies that dominate large-scale defence contracting in Canada – including GDLS-C, as well as Lockheed Martin Canada and others – are wholly owned subsidiaries or “branch plants” of American defence companies.<sup>5</sup> And yet the argument for maintaining a defence industry in Canada – even if it means undermining our own security in the long run and contributing to the exacerbation of conflict and misery in other countries – rests on the questionable assumption that we need it for our own “independent” national security and sovereignty.

Moreover, history suggests that Canada can rely on both its allies and its civilian industrial capacity to provision necessary military equipment in times of crisis or war, even when our allies need similar resources at the same time (cf. CADSI 2016a). During WWII, both the United States and the United Kingdom transferred valuable warships to Canada when it entered the war without its own “blue-water” (or expeditionary) fleet (Milner 2010).<sup>6</sup> Similarly underequipped for land combat overseas, Canada was able to mobilize domestic automobile and railway manufacturing facilities to provide tanks, armored vehicles and trucks for Canadian troops, building platforms often based on British and American designs (Stuart 2013). Aircraft designs acquired under license from allies were built in Canada for the Royal Canadian Air Force, relying on a nascent civilian aviation industry whose pre-war demand for defence goods had been close to nil (Zhegu 2013). More recently, in 2005 Canada was able to purchase Boeing C-17 “Globemaster” planes and “Chinook” helicopters from the United States when it needed such military equipment for its mission in Afghanistan. And, in 2007, Canada acquired upgraded Leopard 2 main battle tanks from Germany and the Netherlands through lease/purchase agreements (Freeman 2007) – all while the United States, Germany and the Netherlands were also fighting in Iraq or Afghanistan.

With Canada's close allies committed to supporting their own export-dependent arms industries, and with little evidence to suggest that Canada could not either purchase the military equipment it needs or mobilize civilian industry to produce weapons and equipment, it becomes less clear that Canadians have no choice but “collectively [to] hold our nose” (Juneau 2016) and accept unchallenged the negative externalities associated with continuing to support (and subsidize) its defence industry. It bears emphasizing that the CAD \$6.7 billion defence industry contribution to Canadian gross domestic product (GDP) in 2014 represented a mere 0.375 per cent of Canada's \$1783.78 billion GDP that year (Trading Economics 2016). Given the chance to consider the issue, Canadians might well prefer government policy to encourage the reallocation of real productive resources currently devoted to military production (machinery, materials, factory buildings, engineering talent, skilled machinists, etc.) to beneficial economic activity and the pursuit of non-military security strategies (Dumas 2004, pp. 18, 26).

## Conclusion

Other than remarking on its substantial dollar value, Canadians should not be surprised by the recent sale to Saudi Arabia of Canadian-made military equipment. In the near term,

providing security equipment to Saudi Arabia may be consonant with Canadian foreign policy goals, and it may promote better Canada–United States relations in international affairs. If not surprised, however, Canadians may nevertheless be outraged by this sale, and with good reason: the global arms trade itself is outrageous. In our view the problem is not this particular, large sale of LAVs to a country with a poor human rights record, as much of the controversy has been framed in Canada (Byers 2016, Chase 2016a). The problem is *military sales*, period, and especially Canada’s apparent intention to grow its manufacturing base by exporting weapons on the global market. Canada’s overly ambitious and unsustainable military-industrial production strategy is relying on government-promoted arms sales to undemocratic, militarily aggressive regimes to do so. Such a strategy necessarily entails supporting violent and autocratic rulers, ignoring endemic bribery and corruption, spreading human misery, and compromising Canada’s fundamental and long-term interests in the promotion of international peace and security. In short, it means that Canada will trade the promotion of peace, order and good governance for the short-term economic benefit of a relatively small number of Canadians; ignore broader foreign policy goals in the interest of meagre electoral gains; and participate in an inherently corruption-prone and illiberal market at a time when the Trudeau government is explicitly pursuing freer trade worldwide.

As other countries are taking steps to reduce the corruption, violence and abuse caused by the weapons trade of the global arms trade through the UN Arms Trade Treaty, which Canada has only recently promised to sign (Arms Control Association 2016, Global Affairs Canada 2016), and as other states have begun to refuse arms sales to Saudi Arabia, in particular (Tencer 2016), Canada is headed in the wrong direction, even as the Trudeau government – rightly or wrongly – seeks to re-establish Canada as a moral leader on the world stage. Without greater transparency and broad, public evaluation of Canada’s participation in the global arms industry, the true cost of Canada’s domestic defence industrial base will remain hidden and deals like the 2014 Saudi LAV sale will likely recur, regardless of the party in power. Absent such a wholesale, informed reevaluation of priorities, Canadians will continue to be made unwittingly complicit in a crude and contemptible bargain, one in which the votes of workers in London, Ontario, are worth more than the lives of children in Yemen.

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## Notes

1. Sources citing these figures, however, neglect to add to that this represents a mere 0.375 per cent of Canada’s CAD \$1783.78 billion gross domestic product (GDP) in 2014 (Trading Economics 2016).

2. In the period 2011–2015, the world's top five arms exporters, which together accounted for 74 per cent of the total volume of arms exports, were the United States of America, Russia, China, France and Germany. The five largest arms importers by share of imports as a percentage of the global share were India (14 per cent), Saudi Arabia (7 per cent), China (4.7 per cent), United Arab Emirates (4.6 per cent) and Australia (3.6 per cent) (SIPRI 2015, Fleurant *et al.* 2016).
3. For another discussion of the subordination of human rights to industry interests in Canadian foreign policy, see Webster (2010).
4. As with all industries subsidized with public funds, all Canadians support the defence industry, but not everyone reaps the benefits of defence manufacturing, even with the mandated dispersion of sub-contracts and offsets.
5. As with the broader pattern of trade in Canada, the United States is by far Canada's largest market for defence goods, and shrinking American defence budgets have played a major role in prompting it to find export markets for its defence production in unstable parts of the world. In 1994, when the first contract to sell LAVs to Saudi Arabia was signed, that sale was negotiated after the London production line seemed at risk of shutting down, following the completion of a large order for the American military (Epps 2014). The 2014 deal came on the heels of a post-Iraq, post-Afghanistan reduction in American (and Canadian) military expenditure.
6. Interestingly, the omission of large warships from the pre-war Canadian naval inventory was deliberate, and based on a common-sense threat assessment. As a de facto protectorate of the UK, and in such close proximity to the United States – the dominant naval powers – Canada had no need for a large-ship navy, and could instead focus on smaller ships for much-needed coastal defence and control (Sarty *et al.* 1990).

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