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Canada at Economic War: Setting the Scene

Raquel Garbers

Key Points

- At the end of the Cold War, the Western powers made two fateful errors: they opened their societies and economies to hostile states, and they allowed their militaries to fall into decline.
- The hostile states exploited Western complacency to amass coercive economic and military power. China is especially active in weaponizing economic activities as it understands that in a highly globalized world, economic warfare is the essential first phase of full-scale war.
- Canada is a high-value target in today's global economic war (see Box 1). Securing our future against growing pressures from allies and adversaries alike requires urgently changing our outdated foreign policy mindset and resetting how we engage in the world. We need real strategic thinking and, most critically, the political will to put Canada first.

Introduction

At the end of the Second World War, the global community pivoted to a new power contest — the Cold War between the United States and the Soviet Union. With its transition from pre-war isolationist to post-war superpower complete, the United States embraced the opportunity and the burden of building resilience on behalf of its allies and partners. In spending more than US\$13 billion under the Marshall Plan¹ (up to US\$150–US\$170 billion in 2024 dollars), it rebuilt shattered Western European economies; in championing the North Atlantic Treaty Organization (NATO),² it founded the world's greatest political-military alliance; and in negotiating the stand-up of the international rules-based order, it helped build a predictable, stable system for regulating interstate relations. The results were stunning. The European Union wields significant economic power. The NATO alliance has grown from 12 to 32 members, deterred the outbreak of global war and conducted complex missions across the world, from combat and peacekeeping operations to capacity-building and humanitarian relief activities. And, as the third pillar of the post-war order, the international rules-based order has reinforced the first two by channelling otherwise chaotic relations between states through a dense collection of international rules, norms and institutions.

1 See www.archives.gov/milestone-documents/marshall-plan.

2 See www.nato.int/nato-welcome/.

About the Author

Raquel Garbers is a CIGI visiting executive from the Department of National Defence (DND), where she held the role of director general, strategic defence policy, since April 2018. She is also a visiting practitioner with the US Department of Defense (Daniel K. Inouye Asia-Pacific Center for Security Studies). Raquel served as the principal architect of Canada's new defence policy, *Our North, Strong and Free*; led the policy development process for developing election transition materials for new incoming governments; and represented Canada on the team that led the US-led multilateral initiative Partnership for Indo-Pacific Industrial Resilience. In her time at DND, she also held the position of deputy director general, international security policy. In this position, she spearheaded the development of advice on Canada's strategic defence posture with allies/partners and accompanied the minister of national defence and chief of the defence staff on international engagements as their principal policy advisor. Her areas of specialty include strategic military effects, geopolitical assessment and grey zone conflict. She is a frequent speaker on international affairs.

Raquel began her career at the Privy Council Office, where she served on a small team providing strategic advice on managing the international aspects of Canada's national unity strategy. She then moved to the security and intelligence field, where she held a number of increasingly senior posts, including positions as an intelligence analyst, the senior officer for Cabinet affairs on national security and foreign policy issues, and the senior advisor to the prime minister's national security advisor.

Raquel holds a B.A. (Hons.) in political science from Toronto's York University, an M.A. in international affairs from the Norman Paterson School of International Affairs at Carleton University and a certificate in French language studies from Laval University.

Box 1: What Is Economic War?

The global threat environment is increasingly complex and unstable, with hostile states using all instruments of national power (diplomatic, information, military and economic, or DIME) to launch incessant attacks on foreign governments, industries, research labs, civic groups and more. They are especially active in the economic domain, where they are using illicit, unfair and illegal economic practices to corrupt the global order that underpins stable interstate relations; weaponize economic interdependencies; and aggressively target the foreign assets and technologies essential to modern military power. In our highly integrated world and 360-degree threat environment, economic attacks are the essential first phase of full-scale war.

In 1990–1991, the dynamics underlying the post-war order changed in what seemed like an instant when the decades-long contest between the superior power of the US bloc finally stressed the Soviet system to the point of collapse. The Cold War was over. The United States stood alone as the sole global superpower (the so-called unipolar moment). And the Western powers celebrated their victory by unknowingly setting in motion the very forces that have brought them back to the brink of war. Secured by US power at its zenith, confident in the stability of the global order and impatient to exchange the costs of defence for the riches of a globally integrated economy, the allies made two fateful decisions: they opened their societies and economies to rival states at the same time as far too many of them also let their militaries atrophy. These critical errors were fuelled by a new and deeply flawed foreign policy mindset. Forgetting the lessons of history, foreign policy elites declared that wars between major powers were a relic of the past. They believed that a global order defined by overwhelming US power (and, by extension, infused with US values) would pacify rival states, in part by integrating them into liberal-democratic economic and political systems; that is, they believed that global interdependence in a US-led world would serve as a force for lasting peace.

Embracing this vision of the world as they wished it to be, the Western powers set off on a historical moment known as “the holiday from history.”³ Seizing their opportunity, the hostile states — China chief among them — skipped the holiday and instead set to work flipping the global balance of power in their favour. To this end, they capitalized on the West’s enthusiasm for global interdependence by nesting themselves inside Western systems. Giving the hostile states a critical assist, US economic and military power fell into decline in the early 2000s. Among other pressures, the so-called Forever Wars in Afghanistan and Iraq and the 2008 financial crisis together served as pivotal causes of the decline. In the mid-2010s, US power was eroding, with the signs growing in number and severity. By 2022, Russia’s war on Ukraine — now increasingly sustained by money, weapons and fighters from China, Iran and North Korea — confirmed that the unipolar moment was over and that the post-war order was in freefall.

The Rise of Hostile States

It was the combined effect of declining US power and growing authoritarian power that allowed hostile states, in particular China under the Chinese Communist Party (CCP), to rival the United States in just three decades. In allowing hostile states to nest inside their societies and economies at the end of the Cold War, the West had set the conditions for its own decline. Known as the “pacing threat” because of its (near) peer military and economic power, China’s meteoric rise was due both to its own domestic reforms and to the highly sophisticated below-threshold campaign it pioneered to exploit Western openness. Deliberately crafted to fall below the threshold that would cause a targeted state to respond in a meaningful way, below-threshold attacks are executed in ways that disguise their true intent and make progress only incrementally. For example, attacks masquerading as economic activities are often intended to achieve military effects, as is the case when the CCP uses foreign direct investment mechanisms to buy Western companies whose intellectual property (IP)/technology is essential to equipping the People’s Liberation Army (PLA) to fight a war against the United States. As security and defence experts in multiple countries know,

when a CCP-linked entity offers to buy a start-up that specializes in a niche dual-use technology, there is typically a direct correlation between the technology at play and a gap in the PLA’s military power. Below-threshold attacks can also unfold across three or more domains to create a self-reinforcing ecosystem, making intent and impact still more difficult to prove and contest. This is the case when, for example, the CCP exploits economic dependencies to coerce a Western government’s political decision making while simultaneously spreading disinformation to legitimate its aggression.

In the security and defence world, the relationship between the CCP’s below-threshold attacks and full-scale war is abundantly clear: below-threshold attacks gradually erode the political will, industrial power and military capability needed to mount a credible military deterrent to war, just as credible military power — and the will to use it — deters the most hostile below-threshold attacks in the first instance.

China’s below-threshold attacks are especially active in the economic domain. Using illicit, unfair and illegal economic practices, China and its partners are corrupting the global order that underpins stable interstate relations; weaponizing economic interdependencies; and aggressively targeting the foreign assets and technologies essential to determining the outcome of global competition and a future war. In our highly integrated world and 360-degree threat environment, economic attacks are the essential first phase of full-scale war.

As allied militaries have warned with increasing urgency, hostile states are building military capabilities suited to their plans to upend the global order (Rutte 2024). China is an aggressive (near) peer economic and military threat to the United States and its allies/partners, and together with Russia, Iran and North Korea, it is committed to achieving its strategic goals — including by military force (US Department of Defense 2023). In this new context, allies and adversaries alike are jockeying for advantage in the evolving global order. They are shoring up vulnerabilities created by decades of economic interdependence; standing up exclusive international groupings among their most trusted and capable allies (for example, the security pact between Australia, the United Kingdom and the United States known as AUKUS); and, most critically, competing with urgency to build credible military dominance so as to either arrest the slide into full-scale war on terms they favour or give themselves a decisive advantage in the event of that war.

3 This phrase was coined by *Washington Post* journalist George Will shortly after the terrorist attacks in New York City on September 11, 2001, to describe a period of relative global stability beginning with the end of the Cold War and closing with the War on Terror.

The Imperative to Act

Like its allies, Canada must adapt with urgency (see Box 2). In its new defence policy, *Our North, Strong and Free* (Department of National Defence 2024), the government set the vision and ambition for building a Canadian Armed Forces (CAF) able to defend Canada first and foremost; share in the defence of North America with our US allies; and contribute to broader global security. The challenge of rebuilding the CAF in a world already in the opening (economic) stages of full-scale war is immensely complex. The government cannot do it alone. In a 360-degree threat environment where hostile states are attacking all segments of Canadian society, all Canadians have a direct role to play in defending their country. Given, however, that without economic strength there is no industrial power, and without industrial power there is no military power, Canadian business and industry are especially indispensable partners in the defence of Canada.

Box 2: Canada Is Not Immune

As evidenced by the growing number and audacity of below-threshold attacks on Canada, and the worsening military threat faced by Canada, we are not immune from the forces of conflict sweeping across the globe. Rich in the natural resources and technological know-how that fuel economic and military power, deeply interconnected with the United States on all key elements of its national power, and yet comparatively weak in both economic and military terms, Canada — like some other US allies — is being treated as a high-value, low-risk target by hostile states.

CIGI's Contribution

As part of its commitment to advancing important public policy debates, CIGI has launched the Canada at Economic War project to raise much-needed awareness of the attacks currently being levelled daily on Canada via hostile economic activities; to explore the impact of those attacks on Canada's will and capability to defend itself in a world at risk of sliding into full-scale war; and to examine the urgent challenges and make proposals for developing a Canadian Defence Industrial Strategy (CDIS). Through a series of policy briefs building on this scene-setting piece, CIGI will develop:

- a high-level overview of the current threat environment, as a starting point for understanding “the world as it is” and the importance the government has placed on defence industrial strategy;
- an explanation of the hostile states' economic warfare strategies and tactics, and proposals for reinforcing the economic security regimes of Canada and its allies;
- a review of the ways in which economic attacks can erode a state's will to defend itself, weaken its industrial sector and undermine its military readiness; and
- a framework for developing a CDIS based on three central pillars: Build, Protect, Compete (see Box 3).

Box 3: Build, Protect, Compete

- **Build:** A CDIS must identify its key sectors of focus (energy and critical minerals, select high-tech fields and so on) and build capacity across their full supply chains; that is, from innovation and manufacturing capacities to procurement/acquisition reforms and sustainment strategies. This must include a clear-eyed understanding of the strategic importance of both IP and data; modern conflict is as much about bytes as it is about battleships. As our allies and partners are building-out their own strategies, there is an urgency to developing the CDIS in time to earn a seat at the highly exclusive allied/partner tables standing up new (defence-driven) geo-economic arrangements. Failing to be invited into these groupings for want of having immediate credible contributions to offer risks causing severe generational damage to Canada's overall economic status.
- **Protect:** To protect its defence industrial base, and as the second pre-condition to being included from the beginning in new (defence-driven) geo-economic arrangements, Canada's economic security regime must be reformed in line with changes made by its closest allies and partners, particularly the United States. The reforms must focus first on the hostile states' preferred attack vectors (foreign direct investment, outbound investment, exports, research collaborations, talent management programs and so on). Again, this will require close collaboration between public and private sectors to ensure that the majority of the commercial and military value of Canadian invention does not leave the country through either early-stage acquisitions or IP theft.
- **Compete:** Strategies to restore the industrial/technological gap on which military deterrence relies must include collective frameworks to map the allies' comparative advantages/vulnerabilities against those of the adversaries and, on that basis, develop active measures tailored to military realities. The necessity for active measures is self-evident: passive defence serves only to slow the path to inevitable defeat. A necessary condition of being able to compete will be to strategically inject Canadian-held IP into global value chains, dual-use technologies and next-generation military equipment and material. To the extent possible, where these efforts are buttressed by technical standards development, Canada must make a strategic-level effort to shape those rules — like our future depends on it, because it does.

The Final Word

In producing these policy briefs under its new Canada at Economic War project, CIGI will engage with experts from diverse sectors as their collective skills and knowledge are essential to developing a CDIS suited to the 360-degree threat environment. Defence and security officials in Canada and abroad, industry and innovation representatives, venture capitalists, military strategists and geopolitical analysts are among the experts essential to starting the conversation on how best to defend Canada in today's economic war. It is our hope that our partners in this work will launch and leverage similar conversations in their own networks. All Canadians have an obligation to help defend their country.

Acronyms and Abbreviations

AUKUS	Australia, United Kingdom, United States
CAF	Canadian Armed Forces
CCP	Chinese Communist Party
CDIS	Canadian Defence Industrial Strategy
DIA	Defence Innovation Agency
DIME	diplomatic, information, military and economic
EfC	Executives for Canada
IP	intellectual property
NATO	North Atlantic Treaty Organization
NSC	National Strategy for Canada
PLA	People's Liberation Army

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Appendix: Recommendations on Related Priorities

Rebuilding the defence industrial base requires action on three related priorities that fall outside the scope of this policy brief series. Ideally, these activities would precede the development of a CDIS to create a coherent enabling environment for it. As time is not on Canada's side, work on these priorities should proceed in parallel:

- **A National Strategy for Canada:** Canada should follow the UK example in conducting an integrated review (and reset) of the family of national strategies in which a CDIS must be implemented (the defence, industry, foreign/trade and national security portfolios). A National Strategy for Canada (NSC) must be premised on a shift in mindset that begins with the understanding that Canada is in an economic war at risk of sliding into a full-scale major war, and that Canada must first prioritize its fundamental national interests. The NSC would ensure coherence between otherwise distinct strategies; establish clarity of purpose and a hierarchy of priorities to guide policy, resource and operational decision making across the sub-strategies; and promote maximum overall impact by overriding the delays and half-measures caused by competing departmental mindsets and missions.
- **Executives for Canada:** The global order is being shaped by active economic warfare as a prelude to readiness for full-scale war, with allies and adversaries alike building more exclusive innovation ecosystems, supply chains and trade/investment arrangements. If it is to help secure Canada's national interests, and by extension its own operating environment, the private sector must help Canadian policy makers navigate the financial and business complexities of defence-driven shifts in the global economic order. To this end, private sector leaders who understand that prioritizing Canada's national interests is both an obligation of citizenship and essential to protecting their own corporate interests should self-organize into an Executives for Canada (EfC) association. Drawing on its own networks, expertise and resources, the EfC should conduct

cross-sectoral research and analysis into how defence imperatives (as identified by military and geopolitical strategists) can be advanced through active economic measures that are specifically designed to strengthen Canada, support allies and create vulnerabilities for adversaries. The EfC should additionally take the lead in building awareness of the emerging economic order across the Canadian private sector (business-to-business dialogues) and serve as a coordinating mechanism for confidential strategic dialogues between private sector experts, government officials and civil society representatives (that is, track 1.5 dialogues). In a 360-degree threat environment, these activities are all critical to building the industrial power needed to help secure Canada in a world at risk of sliding into full-scale war.

with external bodies (including the EfC and defence industries) and by leveraging a percentage of positions for indeterminate external appointments. Personnel reform to advance the CDIS and otherwise renew the public service is required to infuse the ranks with the new ideas, operating strategies and the external networks essential to moving beyond static consultations to meaningful whole-of-society inclusion in Canada's future.

→ **Public Service Reform:** To create the enabling environment for both a CDIS and the NSC under which it should sit, the government should prioritize broad public service reform. The recommendations below are all directly aligned with advancing the NSC and EfC proposals:

- Establish a Defence Innovation Agency (DIA) led by private sector executives qualified in managing a multi-billion-dollar business to affect the Build (industrial) pillar of the CDIS. Supported by in-house expertise from the defence and security communities, the DIA would help steer decision making on the Protect and Compete pillars of the CDIS in close collaboration with government and private sector partners. Leaders in the EfC would be especially well-placed to be part of the DIA.
- Conduct a comprehensive program and spending review to identify resources to reallocate to the CDIS and other NSC priorities; ensure that fiscal policies are optimally designed to incentivize the economic growth needed to underpin the CDIS; and stimulate productivity/investment in the sectors key to the CDIS. The review should include expertise from former senior officials who understand the civil service but are no longer professionally engaged in it, as well as from private sector actors with strong business credentials.
- Reinvigorate the senior ranks of the public service by actively promoting exchanges

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67 Erb Street West
Waterloo, ON, Canada N2L 6C2
www.cigionline.org

