

BUSINESS COUNCIL ON NATIONAL ISSUES

THE CANADA-UNITED STATES TRADE DEBATE BEWARE THE PROTECTIONIST SIREN SONG

**AN ADDRESS BY
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**THE MEN'S CANADIAN CLUB OF CALGARY
PALLISER HOTEL**

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This address is the third made by the Business Council on National Issues in the past several months on the issue of Canada-United States trade liberalization. As these remarks indicate, the Business Council on National Issues supports the decision of the Mulroney Government to enter into negotiations with the United States with the goal of dismantling, over time, tariff and non-tariff barriers to trade. The text is devoted mainly to a rebuttal of protectionist arguments which are critical of trade liberalization generally, and of an agreement with the United States specifically.

This address reflects the views of the Business Council Task Force on the International Economy and Trade. The Task Force is chaired by Alfred Powis, Chairman and Chief Executive Officer of Noranda Inc.

The Business Council on National Issues is comprised of the chief executive officers of 155 of Canada's leading corporations. The Council's goal is to contribute to the development of public policy in Canada and to assist in shaping the country's national priorities.

Member companies of the Business Council together administer in excess of \$650 billion in assets which produce annually more than \$250 billion in revenues. They employ more than 1.5 million Canadians. The Chairman of the Council is Rowland Frazee, Chairman and Chief Executive Officer of The Royal Bank of Canada.

Not so long ago, from this same platform, many of you heard a fellow Albertan warn of dire consequences of closer economic ties with our southern neighbour. Mel Hurtig, Chairman of the Council of Canadians, asked you to accept two fundamental propositions. First, that a move towards freer trade with the Americans would have negative economic consequences for Canadians. And second, that such a move would lead inevitably to the extinction of Canada's political independence. I cannot accept either of these propositions. Thank you for providing me with this opportunity to explain why.

THE ECONOMIC CASE FOR FREER TRADE

Let me begin with the economic case, and some simple facts. Canadians export more per citizen than any other industrial power with the exception of the Federal Republic of Germany. Up to three million jobs -- more than one quarter of our workforce -- depend on export trade. Of this trade, the United States now absorbs over 78 percent. This extraordinary southward flow of our commerce provides jobs to over two million Canadians and is a major factor in sustaining our high standard of living. In Western Canada, we have long understood the importance of exports. Grain, forest products, petroleum and coal from the West alone account for over 20 percent of the value of Canadian exports.

Trade Equals Growth and Jobs

When I was a boy living just on the other side of the Rockies, I watched with a sense of awe the seemingly endless freight trains carrying the great riches of our land to far away markets ... markets that provided us with immense rewards. Did you know that since the last war, the value of our exports increased twelvefold from \$12 billion to some \$145 billion? We achieved extraordinary economic growth at the same time that barriers to trade were being lowered throughout the industrialized world.

By no means has Canada been the only beneficiary of four decades of trade liberalization. Other industrialized countries have seen huge increases in their real incomes. And just as significant, hundreds of millions of people in less developed countries have benefitted as their products gained freer access to the markets of industrialized countries. In the post war world, trade liberalization became a powerful engine of growth, jobs, and opportunity.

What was the world like before this global move towards trade liberalization? It was a time when the protectionists held sway, when beggar-thy-neighbour policies were common-place. It was time of world depression, of massive unemployment, of hunger and misery. The hard lessons of the thirties taught us a great deal -- most importantly that blind protectionism is a siren song that must be resisted. To give into it is to accept inevitable economic impoverishment, and in time, moral impoverishment as well.

What Does Freer Trade Mean?

Before I go further, let me be clear about one thing. The issue we are discussing is not black and white. Many Canadians, the members of the Business Council among them, do not support a rapid move to unbridled free trade. To us, trade liberalization is a highly desirable goal, but one that must be achieved gradually, with minimum disruption to jobs and production. But the uncompromising protectionists do not see things this way. They reject outright the idea of trade liberalization and advocate an economic system based on barriers to foreign commerce. Spokespersons for the Canadian Labour Congress, for example, argued this point of view before a parliamentary committee last year. They even went further. To the great surprise of many Canadians, in particular the three million workers whose jobs

depend on exports, they actually argued for a reduction of trade. This economic philosophy has no redeeming features. It is a recipe for massive unemployment and national bankruptcy.

Then there are protectionists such as Mr. Hurtig who argue that trade expansion with some countries is desirable, but not where the United States is concerned. He is what you might call a "discriminating protectionist". In the remainder of my remarks, I will explain why Canada's business leaders cannot accept this point of view, and why they have endorsed the federal government's decision to negotiate a Comprehensive Trade Agreement with the Americans.

Advantages Of A Formal Agreement

Business leaders want the massive flow of two-way trade between Canada and the United States -- the world's largest at about \$150 billion this year -- to be secured by a formal agreement. Such an agreement would offer exporters on both sides of the border the assurance and stability that comes with legal protection and political sanction. Without such an agreement, exporters would continue to be vulnerable to protectionist actions.

And we in Canada are seriously vulnerable. In recent years, quotas, surcharges, anti-dumping and countervailing duties have affected exports of steel and copper, sugar products from Ontario, asbestos from Quebec, raspberries from British Columbia, rock salt and salt cod from the Atlantic provinces, and softwood lumber and hogs from virtually all regions of Canada. Almost \$6 billion of Canadian exports to the United States have been affected. The industries threatened provide close to 150,000 jobs. At this very moment,

there are proposals before the United States Congress aimed at impeding Canadian lumber exports worth \$3 billion a year.

It is frightening to realize that a decline of a mere 10 percent in our exports to the United States could cause over a quarter million Canadians to lose their jobs. This is why it is a key goal of Canada's business leaders to forge an agreement with the United States that will exempt our exports to the widest extent possible, from any American actions aimed at reducing imports.

We do not support the trade liberalization initiative simply to prevent job losses, however. The predominant view among economists who have studied the costs and benefits of bilateral free trade is that our gross national product in Canada would rise by three to eight percent. This consensus is supported most recently by the findings of the Macdonald Royal Commission. This growth will create more jobs.

Practical Advantages of Freer Trade

The protectionists accord little credibility, it seems, to the growing body of expert analysis supporting liberalized trade. Let me try a different approach -- one based not on expert analysis, but on practical considerations and common sense. First, freer trade is bound to bring greater benefits to Canada than to the United States because of the difference in the size of two economies. Our exports to the United States account for over 20 percent of our gross national product. American exports to Canada are equivalent to about two percent of their gross national product at the most. Because this bilateral trade is so much more important to Canada than to the United States, the benefits to Canada from the mutual dismantling of trade barriers will be of much greater significance to us.

Second, improved access to the huge United States market of some 250 million people, would help us come to grips with the problems that threaten our competitiveness. It would encourage larger, lower-cost production runs in our factories and the economies of scale that have largely eluded us in the past. It would help us address one of the worst productivity records in the industrialized world by making our industries more specialized and more efficient. It would strengthen our capacity to compete in our own market, in the United States market, and particularly in the highly competitive global marketplace.

We would see the benefits of this reaching out in very concrete ways. The prices of many of the things that we buy would fall. The incomes of Canadian households would rise. So would consumer spending and investment. In the wake of all this, jobs would grow. As a nation, we would remain one of the world's major economic powers. Mr. Hurtig believes that people who share this bold and dynamic view of Canada's future are, in his words, "timid, cringing, ... continentalists." I will let you decide who the timid and the cringing are in this debate.

The third reason why Canada's business leaders favour freer trade with the Americans is that it would make Canada a more attractive place to invest -- more attractive to Canadians themselves, and to foreign investors as well. I have spoken to many in the United States, Europe and Japan who see secure access to the United States market under the umbrella of a comprehensive trade agreement as a very alluring prospect. As things stand now, a combination of tariffs, other barriers to trade, a fear of protectionism, and the lingering effects of nationalist economic policies in recent years have driven a great deal of investment away from Canada. This has cost

us dearly in lost opportunities; a point confirmed by the respected international journal The Economist in its current special issue on Canada.

There is another reason why Canada's business leaders favour freer trade with the Americans, and it may surprise some of you. We believe that a bilateral trade pact would help address one of the most serious domestic economic problems we face -- a problem that the protectionists appear to be little concerned about. I am referring to the barriers to free trade that we Canadians have erected against one another in our own country -- barriers that have impeded the free movement of goods, labour, and capital among the ten provinces; barriers that have fragmented our already small domestic market and made us less competitive internationally. In an excellent study completed last year, the Canada West Foundation, headquartered in this city, assessed the problem and proposed some sensible solutions. It is inconceivable, in my view, that Canada could negotiate a freer trade pact with the Americans and allow barriers to free trade within Canada to remain untouched.

Canada's National Unity Would Be Strengthened

Freer trade would also strengthen Canadian unity. Western Canadians have long understood why. The Macdonald Commission summed it up this way. "It is probable," the Commissioners pointed out, "that the most significant and long term effect of free trade would be ... the removal of one of the most persistent and corrosive sources of regional alienation in Canada's political history. The resentment generated by protectionist policies has been especially acute in the West, but it has also been a nagging cause of irritation in Atlantic Canada and in the agricultural communities of Ontario and Quebec Canadians elsewhere in the country still believe strongly that the

manufacturing and industrial economy of central Canada is being maintained at their expense."

THE POLITICS OF FREER TRADE

In my remarks so far, I have explained why Canada's business leaders believe that on balance freer trade with the United States and the world would produce positive economic results. But in the process, would we lose our political independence? We would not, for the following reasons.

Canadian Sovereignty Not At Stake

First, the Canadian and American economies are already highly integrated. A great deal of the trade that passes between the two countries already is free. And yet, would any well-informed Canadian argue that we are less independent now than in the days of high tariffs? Could a case be made that we have a weaker sense of national identity now than say thirty years ago? Certainly not. Will a comprehensive trade pact that results in the incremental dismantling of remaining tariffs and other barriers to trade make a difference? I cannot see why.

Second, the protectionists argue that freer trade today will lead, before long, to a common market, and eventually to a Canada-United States political union. This argument has no foundation whatsoever. In this century, there is not a single example where a high level of trade liberalization between two countries has led to political integration. We in the Business Council are opposed to a common market. The arrangement being proposed between

Canada and the United States is close in character to the trade accords negotiated in the 1970s among the members of the European Free Trade Association (EFTA) or between a number of Western European countries and the European Community, or to the recent Closer Economic Relations agreement between Australia and New Zealand. These aim to achieve a liberalization of trade and more stable market access. They do not embrace the objective of economic integration, and there is not the slightest evidence that these agreements have eroded the political independence or sovereignty of the countries that have signed them.

The Special Case of Culture

A discussion of political independence and sovereignty in Canada these days inevitably leads to the sensitive issue of culture. Many Canadians are genuinely worried that our cultural industries -- those engaged in periodical and book publishing, records, film, and video -- could not survive in a free trade environment. This subject provokes strong emotions on both sides of the border -- witness the conflict in the mid-1970s surrounding the non-deductibility of advertising placed in foreign media, or the current dispute surrounding Gulf + Western's acquisition of the Prentice-Hall book publishing company.

I share this concern. I believe that Canadian companies in the cultural sector would be put at a substantial disadvantage by a combination of free trade and the elimination of present investment regulations which limit the right of foreign companies to establish themselves in cultural industries. With other products, Canadian companies could carve out niches and compete against their American counterparts. Canadian cultural products are not

exportable in the same way. Many of them will have meaning only to us, so we can never hope to overcome American economies of scale in this area.

Why do Canadians make the linkage between cultural industries on the one hand, and the sovereignty question on the other? Why has this issue become so explosive in Canada as our two countries prepare to negotiate? If you understand the issue, then to a large extent you have fathomed the psyche of Canadians. Whether consciously or unconsciously, we value and depend on the indigenous vehicles which express who we are as a people --whether through the pages of newspapers or books, the sound of records, or the images of film. To the extent that trade liberalization threatens their existence in Canadian hands, this will be seen as a menace to our independence as a people.

It was our awareness and sensitivity to this issue that prompted the Business Council, in testimony before Canadian parliamentarians last August, to argue that "care must be taken to protect sensitive sectors that are essential to the maintenance of Canada's political and cultural values ... and where necessary, foreign investment and competition in the cultural sector should be controlled to ensure that this important area of our national life is not sacrificed in the quest for a more competitive Canadian economy."

We Must Look Beyond The United States

Another concern has been raised in the current debate. There is fear that the federal government and the business community have turned their backs on efforts to achieve world trade liberalization and on the expansion of markets outside North America for Canadian exports. Nothing is further from the truth. Government and business leaders alike believe that our negotiations

with the Americans will accelerate the move towards freer trade among the world's trading nations. As for those beckoning markets in Southeast Asia and elsewhere, I can assure you that they remain very high on the priority list of Canadian exporters. And as freer trade increases our capacity to compete globally, our presence in those markets will grow ever stronger.

THE EXCITING CHALLENGE BEFORE US

In the course of my remarks today, I have offered a response to those who oppose trade liberalization generally, and to those who oppose freer trade with the United States. In the coming months, the debate will rage on. We in the Business Council on National Issues welcome this debate. We see it as helpful in fostering a better understanding of how vital international trade is to Canada's political and economic well-being. But to be truly constructive, the debate must be rational and the parties to the debate must be prepared to listen. Otherwise, national dialogue on this important question will degenerate into acrimonious conflict.

It is with this in mind that I come to what is the most important part of what I want to say today. The Mulroney Government, backed by a huge majority in Parliament, and by a significant majority in the country, has committed itself to negotiations with the United States. The object of these negotiations is to explore ways in which the two countries can trade more securely with one another. It is to find ways to avoid costly trade disputes before they arise and to solve them quickly when they do. It is to strengthen our industries, expand our job opportunities, and improve our standard of living. It is to reach out and ensure that Canada remains a significant economic power in a mercilessly competitive world.

Can any responsible Canadian stand in the way of at least exploring these possibilities? Is it in our character to say to a great friend and ally we are not even interested in discussing how we can work together more effectively on this continent? These are the questions I believe all Canadians should be asking.

No Canadian I know is advocating an agreement with the Americans at any price. On this point the position of Canada's business leaders is perfectly clear. The Chairman of the Business Council, Rowland Frazee, sums it up this way: "We support the idea of a Comprehensive Trade Agreement only if in fact it produces concrete, beneficial results for the vast majority of working Canadians and our industries. Only the outcome of detailed and tough negotiations will tell us that."

But given the negativism of the national debate, I wonder if Canadians may be denied even the opportunity to assess whether or not an agreement with the United States will yield the great benefits that so many have promised? I am concerned. This is not the time or the issue where Premiers should be sparring with our federal political leaders on who speaks for Canada. This is not the time when the leaders of Canada's labour movement can afford to pass up the possibility of improved job prospects. And this is certainly not the time when the blinkered protectionists should wrap themselves in the Canadian flag, reject any form of dialogue or dispassionate enquiry, and spread alarm and fear. This is a time for statesmanship, a time for courage, a time for action.

NOTES ON THE SPEAKER

Thomas d'Aquino has been President of the Business Council since 1981. A lawyer, Mr. d'Aquino is also Chairman of Intercounsel, an Ottawa based consulting group. He currently acts as an advisor to a number of companies in Canada and abroad.

Mr. d'Aquino is a native of British Columbia and was educated at the Universities of British Columbia, Queen's, and London. He holds B.A., LL.B., and LL.M. degrees having specialized in political science, economics, and international economic law. Mr. d'Aquino is a member of the Canadian and International Bar Associations and of the Law Society of British Columbia.

His professional experience has included: legal counsel to a national Canadian organization in the transportation field (1967-1968); four years in the federal government - one year as Executive Assistant to a federal minister and three years as a Special Assistant to the Prime Minister (1969-1972). For the past thirteen years, including periods in London and Paris, he has acted as both legal counsel and advisor to a number of governments and major enterprises in Canada and abroad.

From 1976 to 1983, Mr. d'Aquino was Professor Adjunct of the Faculty of Law of the University of Ottawa where he taught a course on the law of international business transactions, trade, and the regulation of multinational enterprise.

Mr. d'Aquino is a member of the Board of Governors of Carleton University, the Board of Directors of the Canadian Labour Market and Productivity Centre, and of the Editorial Board of Policy Options, a publication of the Institute for Research on Public Policy. He is the author of a number of publications and has lectured and travelled widely.

Mr. d'Aquino and his wife Susan live in Ottawa.

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