hence the structure to meet world class competion. This is not my conclusion. It is the conclusion of the research that we have done, that the Macdonald Commission has done, that C.D. Howe has done and that many business associations have done. I'm talking about business associations representing firms of all sizes -- the Canadian Chamber of Commerce, the Business Council on National Issues, the Canadian Manufacturers Association, the Canadian Federation of Small Business and the Retail Council of Canada. All of them are on record as favouring a new bilateral trade arrangement with the U.S.

Question: But what about the U.S. subsidiaries and branch plants in Canada? What's to guarantee they won't pull out?

Answer: There's a hook in that question, and it's the word "guarantee". There are no hard and fast guarantees about anything in the world we live in. All I can tell you is that the branch plants haven't pulled out so far -- despite 40 years of progressive tariff reductions.

Despite what seems to be popular belief, high tariffs are not the main reason for establishing subsidiaries. Survey after survey of Multinational enterprises' investment intentions for Canada show that what count most are proximity to customers, market potential, market access, quality of the labour force and return on investment, while tariff and non tariff barriers are of secondary importance. Research on the behaviour of foreign owned firms shows that when faced with lower trade barriers, their preferred reaction has been specialization to serve larger markets, rather than plant closures. After all, scrapping of operations is a very costly alternative. You can't pick up your plant and move it.

That doesn't mean that no branch plants will close. But more will probably open than close. And research indicates that the ones that close would have done so with or without a new trade agreement.

Indeed, the net effect of freer trade on new U.S. investment in Canada is much more likely to be positive than negative. Many companies have been discouraged from investing in Canada because our market is small and there are still barriers to our trade in the U.S. These firms could well enter Canada and produce for neighbouring U.S. regions. The possibility of penetrating the U.S. market from a secure and more advantageous Canadian base could well induce a flow of new investment and job creation.

Question: But what about jobs? Won't trade liberalization create large-scale unemployment and lower wages? The Ontario Government claims that the scrapping of unprofitable U.S. subsidiaries will mean the loss of hundreds of thousands of jobs in this province. The Ontario Federation of Labour says that work conditions, safety and health standards may be compromised by the lower standards prevailing in southern U.S. industries, and that the incomes of Canadian workers could be seriously depressed.

The answer to the last part starts with a question. Why on earth should the standards in the south affect Canada when they don't affect the rest of the States? But let's go deeper into that charge.

All major studies on the impact of trade liberalization show labour as the main beneficiary -- through more jobs and higher real wages. A study by Harris and Cox for the Macdonald Commission found that real wages could increase by 13% to 15%. A recent study prepared by Infometrica