

4. U.S.: The Inevitable Partner

This section need not detain us for long. The deeply embedded and multi-faceted relationship with the U.S. will continue to be fundamental to Canadian prosperity and the necessary centrepiece of Canada's economic diplomacy. The U.S. share of Canada's exports has increased over the past ten years from 67% to over 73% of all shipments abroad of Canadian goods and services. During the same period, the U.S. has accounted for a fairly steady share of almost 70% of the Canadian import market for goods and services.¹⁹ The U.S. in 1990 was the recipient of almost 90% of Canada's exports of end products, up from 77% ten years earlier.²⁰

The industries in the two economies are closely integrated operationally, with the U.S. by far the primary source of imported inputs within a context of increasing foreign sourcing by many Canadian firms. The motor vehicle industry is the prime example of this phenomenon, but it increasingly typifies Canada-U.S. production in other manufacturing industries.²¹ The FTA and the NAFTA will accelerate this trend, just as the 1965 Auto Pact fostered such integration in a key sector with highly favourable results for Canada.

The U.S. share of the total stock of foreign direct investment in Canada declined somewhat in the 1980s. Nonetheless, in absolute terms it grew by almost \$18 billion between 1985 and 1991 and still accounts for almost two-thirds of all FDI in Canada.²² Looked at in terms of control of enterprises, U.S. investors controlled just over 17% of the assets of all non-financial corporations in Canada in the late 1980s, only slightly down from the 18% level recorded at the beginning of that decade. On the other side, the U.S. is the first port of call for Canadians investing

¹⁹ All calculations from Statistics Canada on a balance-of-payments basis.

²⁰ Statistics Canada, International Trade Division, May 1992. It should be noted that end products (in part because of a greater level of imported inputs) do not create proportionally as many high quality jobs as fully processed resource-based exports. Nonetheless, the manufacturing of such end products involves high-tech processes which are important in ensuring the diffusion of leading edge technologies in Canada.

²¹ OECD, "International Sourcing of Intermediate Inputs", DSTI/STII/IND(92)1, March 1992; see also, Canadian Manufacturers' Association, *The Aggressive Economy: Competing to Win* (June 1992), pp. 41-9.

²² Statistics Canada, Catalogue No.67-202 (1992), Table 29, pp. 101-06.