

Question: Isn't the GATT enough? Why do we have to go outside the GATT to try to strike a deal with the Americans?

Answer: This goes back to the question of how many baskets you put your eggs in. The GATT is vital to the maintenance of an orderly trading system throughout the world, and it has brought real gains in attacking trade barriers. It has been, and will remain, the cornerstone of our trading policy.

But the GATT must take the needs and aspirations of a hundred nations into account, and so its progress is necessarily slow. Each GATT round takes years to negotiate, and the results are always a compromise. By itself, the GATT is no longer sufficient to address the needs of a bilateral trading relationship as extensive, dynamic and complex as the one between Canada and the United States.

Question: All right, but isn't it dangerous to do a deal with the Americans outside the GATT? Won't we lose the protection that the GATT rules give us against a country as big and powerful as the U.S.?

Answer: First of all, no deal we make with the Americans will run counter to the GATT. The negotiations with the U.S. will complement, not contradict, our commitments to the GATT and our negotiations in the next GATT round.

Second, any deal we do with the U.S. will be enshrined in a treaty, committing both sides to live up to its terms. We have many treaties with the United States, and they are honoured by both sides.

We also have the precedent of that 1935 trade agreement with the States, the one on which the GATT system was based. I think it is very possible

that a new bilateral agreement between us might yield somewhat similar results for the next GATT round. If Canada and the United States could lead the way, if we could show the rest of the world that trade liberalization is to everyone's advantage, I believe it likely that the multilateral negotiations would yield better results -- that more barriers would come down faster throughout the world.

Question: But aren't Canadian firms too small and too weak to compete with the Americans? Wouldn't a trade agreement cause the collapse of our manufacturing base and confine us to the role of supplier of raw materials to the U.S.?

The quick answer is no. The assumption on which the question is based is that Canadian firms are not competitive and cannot become competitive. But the assumption is demonstrably false. Since the Second World War, large segments of the Canadian economy have been opened to foreign competition by successive GATT rounds. Since 1966, Canada's average tariff level has been cut nearly in half.

There is no evidence that the increased foreign competition has eroded our manufacturing base. The historical response of the average Canadian firm has been to become more efficient, not to disappear. Most domestic firms have reacted to competition by specializing in fewer product lines, increasing the scale of production and generating more exports to sell that production. As a result, both imports and exports have grown. In 1960, for example, our exports accounted for only 12% of our national income. Today, they are closer to 30%.

Secure entry into the large U.S. market will give Canadian industry as a whole the scope for even more specialized and efficient production and hence the structure to meet world