

Directions for Change

If Canada is to make its way successfully in the world, we must ask ourselves the right questions about what we want and what we can achieve. We do not have the resources to do everything. We face tough choices, which go to the heart of our national life. To succeed, we need to develop a national consensus on how to deal with the critical international challenges before us.

International Economic Affairs

It is difficult to achieve industrial competitiveness and successful marketing within the relatively small domestic Canadian market. For many industries, secure access to a larger market is a precondition of competitiveness. The rise of new forms of protectionism abroad threatens to reduce Canada's access to key foreign markets, especially in the United States, with consequences that could be damaging for our industrial structure and national prosperity.

Canada-United States Trade

There is scarcely an area of Canadian national life which is not affected by our complex relationships with the United States:

— Canadian fiscal and monetary policies, especially interest rates and exchange rates, are heavily influenced by developments in the US.

— About three-quarters of Canadian exports go to the United States' market, and Canada is by far the largest market for US exports. Two-way trade approached \$154 billion in 1984. Just the increase in Canadian exports to the United States last year exceeded the total of our exports to Europe and Japan.

— 80 per cent of all foreign investment in Canada is American; 15 per cent of all foreign investment in the United States is Canadian.

— US companies control about half of Canada's oil and gas industry; Canada is the United States' largest foreign source of natural gas.

— Canadians are more heavily influenced by American social and cultural values than by those of any other foreign group; transborder travel is extensive, in both directions.

— The physical environment of each country is affected by developments in the other.

— Both countries share responsibility for the defence of North America, and they are the only two non-European members of NATO.

In the absence of an agreement to secure and enhance trade, the growth of US protectionism could seriously hinder the access of Canadian exports to the United States' market, affecting our prosperity and especially the security of many thousands of jobs. Canada-based companies could increasingly be obliged to set up operations in the United States to reach and serve the US market. The financing of the instruments of our distinctive nationality, including social programs and instruments for cultural self-expression, could be made more difficult.

Policy makers will need to be satisfied that, if Canada-US trade were to be liberalized further, the benefits to us would outweigh the costs. For example, would the international competitiveness of Canadian companies be advanced or reduced? Policy makers will also need to take account of the potential consequences of a more liberalized trade environment for such areas as taxation, occupational safety, regional development, industrial incentives and environmental regulation. Also, if trade barriers were significantly lowered, would new investors, Canadian or foreign, set up production in Canada or the United States?

The government is seeking the views of all interested Canadians on these issues. *How best can we secure and enhance the access of Canadian exports to the US market? Do Canadians believe that an agreement on closer trade relations with the United States will produce important economic, cultural and foreign policy advantages or disadvantages?* This is an historic quandary for Canadians: what kind of economic and political relationships with the United States do Canadians want for the 1980s and beyond?

International Development Co-operation Issues

Over the years, Canadian understanding of the diversity and complexity of the Third World has become deeper and more sophisticated, and so has our appreciation of the interests Canada has at stake. Trade and investment, immigration, environmental conservation and international peace and security have been added to Canada's original, largely humanitarian, objectives. The

60312079