

in a larger association. Supporters of free trade, however, have tended to argue that, unlike a common market, no surrender of sovereignty is involved. They point to the experience of those countries where free trade has existed to illustrate that a country can enjoy the benefits of free trade while carefully preserving its political independence. It is arguable also that free trade would generate a stronger Canadian economy and, therefore, a more confident sense of Canadian identity.

The truth, probably, is that while free trade would not directly limit the sovereignty of Canada or the United States, it would have indirect effects. Both governments would have to look very carefully before implementing domestic policies that would increase business costs in relation to those of the other country. For example, if the Canadian government raised the rate of corporate tax above that in the US, Canadian business would be at a disadvantage in free trade competition with US companies; or if the US government imposed on business environmental regulations more stringent than those in Canada, US business might be at a competitive disadvantage in free trade. There would be pressure on the two governments, also, to harmonize safety regulations and other standards in order to ensure the free movement of goods in the free trade area. So free trade would in some degree limit the freedom of action of national governments.

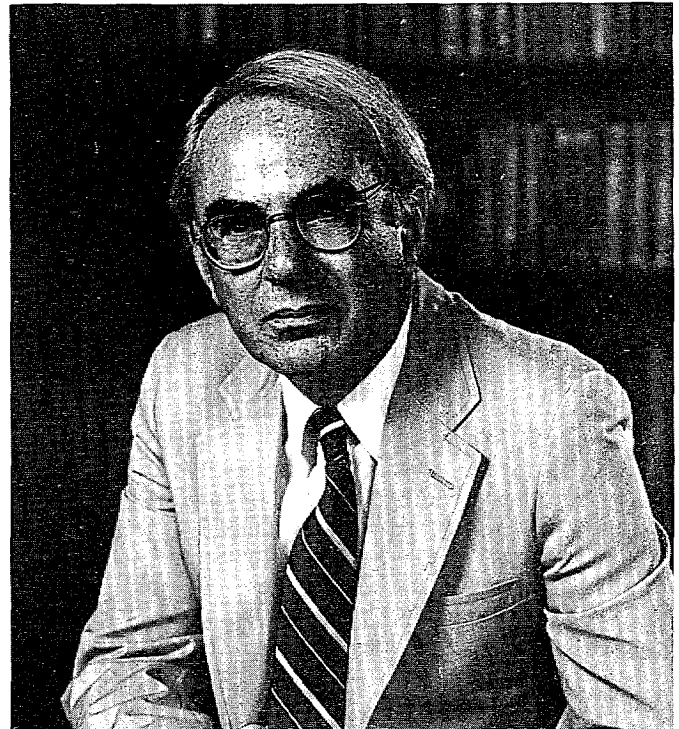
The essential question about Canadian policy on trade with the United States, therefore, is not whether tariff-free trade would be good or bad in theory, or even whether it would erode political sovereignty. Those questions are being answered by decisions already made under GATT. The essential question is how to deal with non-tariff barriers that threaten to deny Canadian exporters the access to the US market they need. The most persuasive answer is to negotiate a free trade treaty with the United States to abolish, over time and with appropriate safeguards for sensitive sectors, both tariff and non-tariff barriers.

Sectoral alternative

Another form of closer economic association would be to negotiate conditional free trade arrangements, similar in principle to the auto pact, for those Canadian industries wishing to rationalize on a continental basis. Petrochemicals have often been mentioned as a candidate for such an arrangement, and others might include producers of communications and transportation equipment, and the high-tech electronic sector. Ideally, such agreements would create a North American market while guaranteeing a share of the business for Canada, as was done with the auto industry. The problem is that such deals would have to serve US as well as Canadian interests. Canada could hardly expect to gain free access to the US market for selected industries without making concessions in return. In reality, there may not be a basis for agreements satisfactory to both countries short of full free trade for secondary industries.

In considering trade policy, it is important to keep in mind that Canada does not have the luxury of doing nothing. Almost all observers agree that the economy must be restructured if it is to hold its own in increasingly competitive world trade. The view generally held by nationalists is that the Canadian government should impose an

industrial strategy designed to strengthen viable industries of the future and phase out the declining sectors. But as governments are subject to a host of conflicting regional, political and financial pressures, there is not much reason to hope that the present or any foreseeable government in Canada will have the competence and strength to force the country through the difficult process of rationalizing the economy. To insist, therefore, that this is the only way for



Allan Gotlieb

Canada to go may be to ensure that nothing much gets done. The other and more persuasive view is that rationalization is best left to market forces, provided that Canadian companies have a fair chance to compete with foreign companies. A fair chance to compete requires access to the US market, and that in turn probably depends upon a free trade agreement. The role of the Canadian government would be to negotiate with the US government the terms of the treaty, and then to assist Canadian companies and workers to make the transition.

The military alliance

Canada's defence policy rests on two alliances: with the United States and the countries of Western Europe in the North Atlantic Treaty Organization; and with the United States alone in the North American Aerospace Defence Command. NATO seeks to deter the Soviet Union from starting a war by confronting it with nuclear and conventional forces on land, sea and in the air. NORAD seeks to deter Soviet attack by providing early warning of the approach of missiles or bombers so that US missiles and bombers can be launched against the Soviet Union before they are destroyed on the ground. NORAD also provides some interception defence against bomber attack.

It can be argued that Canadian policy is fundamentally wrong because the Soviet Union does not threaten war, or