

*The Address—Mr. MacLaren*

ment sets out a promising review process with subsidiaries restricted in their export freedom. I recommend that the Minister for State for International Trade read that report. There will, I hope, be opportunities to pursue this point at a later stage.

Against this background, it would be idle, in light of the recent GATT agreements, to regard tariff or non-tariff barriers as being effective tools in any long-term industrial strategy for Canada. To achieve our dual goals of greater industrial development and Canadian control, we must look elsewhere. In selecting our tools, first let us attempt to visualize what the principal adverse effects of free trade with the United States may be.

As the possibilities for increased profits resulting from free trade are fully recognized by U.S. corporations, presumably they will review which manufacturing subsidiaries in Canada might be profitably shut down and moved to a U.S. factory, in a continental rationalization to achieve greater productivity, including economies of scale. The size of U.S. investment in Canada would be no blanket deterrent to such a trend, although transport and other costs might be in some cases. The current migration of certain U.S. manufacturing activities from New England to the lower cost southern states readily suggests the mobility of such investment.

Further, as both Canada and the United States increasingly feel the impact of higher energy costs and especially the competition of low-cost manufactures from the Third World, bringing heavy pressure on labour-intensive manufacturing, presumably the first jobs to be preserved by U.S. corporations would be at home rather than in Canada, whenever such a choice had to be made. Finally, even if a branch plant is left in Canada, it would become fully integrated into a continental operation, reducing the need for senior management talent in Canada.

While this migration was occurring, Canadian firms presumably would concurrently attempt to take advantage of free entry into the U.S. market and overseas. Although the U.S. reaction to free trade which I have described is likely to be successful for the corporations involved, since it would accord with the simple laws of the marketplace, it is not at all as certain that Canadian initiatives to benefit from free trade will be equally successful. Indeed, multinational corporations are, by their very nature, more likely to have the resources and flexibility required to take full advantage of the opportunities offered by free trade. It would, for example, be a reasonable, if broad, assumption that, unless adjustment assistance, including assistance in meeting capital costs in reorganization, were provided to small Canadian firms, they will be decidedly less likely to make the transition to free trade than a major U.S. corporation already familiar with both the U.S. and Canadian markets.

Given the fact that significant sectors of the Canadian economy are dominated by U.S. corporations, the Canadian government will be the only entity large enough to take a lead in attempting to select industrial sectors capable of competing in international markets, especially in the United States.

[Mr. MacLaren.]

Although governments, with the possible exception of the Japanese, do not seem to be very good at foreseeing the industrial future or predicting the course of technological change, and although it would be an uphill struggle against dominant U.S. corporations, the Canadian government should attempt to foster the emergence of viable Canadian players in the U.S. economy and beyond.

The necessary industrial development policy to achieve this will be found in several respects synonymous with a policy promoting investment by Canadians in Canadian companies or the acquisition of foreign-controlled subsidiaries.

The creation of the Foreign Investment Review Agency resulted from the growing realization on the part of the federal government of the day that ad hoc measures to deal with foreign investment were inadequate and that more was necessary to meet public concern over the disadvantages from the growing foreign investment in Canada.

It may be that FIRA has increased the benefits to Canada of such investment, but the fact remains that through both reinvestment and acquisition foreign control has continued to grow. I for one regret that the governments of Canada since the Second World War have found themselves incapable of doing more to ensure benefits to Canadians from foreign investment and to promote investment by Canadians in Canada.

The previous government did put into place several policies aimed mainly at promoting Canadian entrepreneurship in small and medium-sized businesses, a sector not so dominated by foreign corporations. These policies have contributed in varying degrees to the recent growth in new Canadian businesses, the more rapid growth of existing ones and the acquisition of foreign-controlled firms. They also represent the degree to which both the federal and provincial governments have already intervened in substantial ways to assist the private sector in dealing with structural problems, particularly in the manufacturing sector.

However, an overly interventionist approach on the part of government may well lead to greater inefficiencies and have little real effect on productivity. There is a vast difference between policies such as free trade, both internal and external, a more effective competition policy, particularly on mergers and monopolies and tax incentives, on the one hand, and government procurement policy, enforced mergers, and protection against imports of technology on the other.

The government should define a role for itself that encourages, without interfering unduly in the private sector; that promotes co-ordination between levels of government and among industries; that builds a positive relationship with business and labour and supports a nationally based industrial strategy emphasizing employment opportunities and Canadian ownership.

For some years now, the phrase "industrial strategy" has been much in vogue. At its most simplistic, the strategy has been put in military terms: a grand plan which, if once devised and followed consistently, would surely lead to victory. In