

## SIGNPOSTS

customers keep records of large transactions. "A framework for record-keeping requirements has to be legislated in order to assist police in money-laundering investigations," Minister of State (Finance) Gilles Loiselle says. Legislation would be "broadly-based" but he has not indicated when it might be introduced. The U.S. has had legislation in place since 1970, the Bank Secrecy Act through which it tracks all cash transactions of \$10,000 or more. Some Canadian chartered banks have a funds-source form, but they are by no means universal and the Canadian Bankers Association questions their utility.

**ST. JOHN'S** — Atlantic Airways has received a \$28.5-million federal contract for air surveillance this year off the East Coast, covering areas inside and outside the 200-mile offshore management zone and the extremities of the Grand Banks. "A real deterrent to illegal fishing activity", commented Fisheries and Ocean Minister Bernard Valcourt in announcing the contract, which calls for a total of 3,815 hours of patrols by three aircraft, twice as many as in previous programmes.

**OTTAWA** — Addressing adjudicated weaknesses in the still lengthy process of reviewing claims for refugee status in Canada, the government has instituted new guidelines for immigration officers to consider in reviewing claims. The move came on the heels of a Federal Court of Canada ruling to the effect that the previous criteria "fettered" immigration officers' judgment. The government's initial response was to freeze all claims until new rules could be drafted. Employment and Immigration Minister Barbara McDougall has rejected new suggestions that the government should simply declare an amnesty for the more than 100,000 cases pending. "An amnesty would... tell the world that Canada tolerates disrespect for its laws," she says. "Canadians live by the laws of their country and they rightly demand that those who come here also live by those laws." The first two stages in the backlog clearance effort consist of an initial humanitarian/compassion review and the hearing before an independent two-member panel.

**MONTREAL** — Spar Aerospace Ltd. of suburban Ste. Anne-de-Bellevue has received a \$35-million contract to develop and manufacture communications antennae and electronics for the U.S. Space Station. The contract was awarded by General Electric of Camden, N.J., a major subcontractor on the project. Spar, which supplies the robot *Canadarm* for the Space Shuttles, will provide computer-controlled steerable antennae for the station's space-to-ground and orbital communications as well as omnidirectional units that will be used for, among other things, reception of navigation and control data from the Global Positional Satellite network.

**OTTAWA** — Despite having approved a banking licence for American Express Co., the federal government is unreceptive to competing proposals by the Canadian subsidiaries of four other large American financial service firms. "They would not, at this time anyway, be acceptable", says Minister of State (Finance) Loiselle. The four are General Motors Acceptance Corp. of Canada Ltd. and the financing arms of General Electric Co., Sears Roebuck & Co., and Ford Motor Co. The rationale offered is that, unlike Amex, the others are neither widely held nor publicly traded to the same degree. Although it leaves the door open, Mr. Loiselle's comment is "very encouraging" for the Canadian Bankers Association, which has lobbied against banking licences for "commercial" enterprises that are able to offer services from which the chartered banks are proscribed.

**HEILONGJIANG** — Approximately 55 per cent of the cost of a \$19 million project designed to improve China's management of its scarce forest resources is being underwritten by the Canadian International Development Agency (CIDA) through a Memorandum of Understanding signed by External Relations Minister Monique Landry. Located in this northeastern province, the project involves two consulting firms, T. M. Thompson and Associates Ltd. of Vancouver and Reid, Collins and Associates Ltd. of Victoria. About 30 Canadians will demonstrate modern forest management techniques with transferred technology. As well, 40 Chinese

will be trained in Canada during the six-year project. Of the total cost, \$10.5 million is being provided by CIDA while the Chinese government is contributing the remaining \$8.5 million.

**OTTAWA** — Although there are international precedents, the Supreme Court of Canada has refused to hear an application by a British Columbia woman claiming the right to direct her taxes to "peaceful" purposes. Jerilynn Prior had been trying to appeal a Federal Court of Canada ruling that dismissed her case, which is based on the guarantees of religious freedom in the Charter of Rights and Freedoms. A Quaker who left the U.S. in part because of her disagreement with American defence spending, she was considered a test case for about 550 Canadian conscientious objectors who have directed part of their income tax into a trust fund that now holds about \$200,000. She now is considering an appeal to the United Nations Human Rights Commission.

**BUDAPEST** — As expected (see page 30, March issue), Soviet negotiators have been unwilling at the resumption of the Open Skies talks to concede any ground to their NATO counterparts. A senior western official, insisting on anonymity, is quoted as saying the Soviets still want their aircraft to be permitted to overfly United States bases in other countries. NATO's position from the outset has been that these should be negotiated after homeland overflights have been agreed on.

**OTTAWA** — The National Energy Board has begun an unprecedented retrospective environmental review of 260 billion cubic metres of natural gas volumes that it licensed last year for export by Esso Resources Canada Ltd., Gulf Canada Resources Ltd. and Shell Canada Ltd. It had decided that environmental assessment could wait until it began reviewing the necessary pipeline facilities required for handling the gas. However, the Canadian Environmental Law Association urged the federal cabinet to reverse the decision on grounds that the NEB had exceeded its authority by not requiring the environmental assessment before the licences were issued.

# ECONOMY

## Japanese Confidence in Canada Evidently Justified

A Japanese view of Canada as one of the more desirable places in the world in which to invest, while warmly welcomed by International Trade Minister John Crosbie, was hardly an economic revelation. After all, Japanese investors have for years seen in us a back door to the United States, the key being the Free Trade Agreement (FTA). Unfortunately, the perception of the powerful Ministry of International Trade and Industry is partly shaped by growing American disinclination to favour Japanese capital.

"With the FTA, Canada has taken an important step toward stable relations with the United States," comments Kaname Mizuno, a senior insurance executive who, having been deputy leader of a trade mission to Canada last year, also helped prepare the report. "And while fully aware of the risks, it has taken the initiative and is aiming to be the equal partner with that country. Canada wants Japan, with its wealth of capital, technology and management skills, to be its inevitable partner in this advance, which is directed at the market of the neighbouring United States and at the economies of Eastern Asia."

The seeming antipathy in the U.S. evidently also is surfacing in the European Economic Community (EEC), where there are suggestions that once internal trade barriers come down in 1992, Japanese manufacturing plants there might not remain duty-free. The trade delegation, however, found Canada to be more supportive. "The Canadian response was that even if a company bears a Japanese corporate affiliation, if the products fulfil local-content requirements under the FTA, then they would be treated as Canadian products and their export should not pose any problem," MITI says. The exception would be Japanese-owned automotive plants, which are not covered by the current Canada-U.S. Automotive Trade Agreement.

### Support From Two Respected Bodies

Mr. Crosbie says the report "clearly lays the groundwork for the positive continuation of our trade, investment and technology links with Japan", which he says "can only benefit Canadians." The optimism about the economy

is justified, to a degree, by domestic analyses: by the C.D. Howe Institute and the Economic Council of Canada (ECC).

The Toronto-based Institute focuses on an issue of abiding concern to investors: the Bank of Canada's zero-inflation policy that has been a factor in driving up interest rates. The short-lived 1979-80 administration of Prime Minister Joe Clark had its political doom sealed when Mr. Crosbie, then Finance Minister, attempted to justify modest tax proposals with the comment that they represented "short-term pain for long-term gain." That observation is at the heart of the institute's report. "The pain comes now", it says. "...The gain comes later from higher productivity and lower future interest rates and, most importantly, from the elimination of distortions and inequities — including serious social inequities — created by unstable prices."

Comprising five monetary policy experts' views, the report notes that inflation in the rate of 0 to 2 per cent as measured by the Consumer Price Index is as precise a measure of "zero inflation" as is reasonable to expect. "It is possible for the Bank of Canada to conduct monetary policy so as to keep inflation within this range," the report concludes. "The economy would perform better against this background than if inflation were maintained within its recent 4 to 6 per cent bounds. It is costly to attain this lower inflation rate, but provided the economy is moved toward it rather slowly — over the next two to three years, for example — and particularly if one recalls that nothing can now be done to forestall the economy's slowing down in the immediate future, the costs in question are probably outweighed by the benefits to be obtained."

Current short-term interest rates are at levels unseen since the 1981-82 recession with the trend-setting Bank of Canada lending rate, which is based on the weekly auction of 90-day Treasury Bills, stretching up to nearly 14 per cent in mid-April. This is more than six percentage points higher than when John Crow took over the bank governorship in early 1987. Critics hold that his policies have driven up costs for Canadian exporters and some even suggest that rising bankruptcies, unemployment and

even a recession are imminent.

### Beleaguered Industries Battle Back

The report from the ECC suggests that this country's manufacturers generally respond positively to increased pressure in world markets, tending to fight back rather than surrendering. Although it carries the federal advisory body's imprimatur, the report was prepared by Prof. Richard Caves of Harvard University and it carries the usual disclaimer that its views are not necessarily those of the ECC.

Prof. Caves categorically rejects the notion that Canadian companies are able to survive only behind high tariff walls. Extrapolating his findings — which are predicated on detailed 1970s data on 164 industries, the latest available when the project was initiated in 1985 — Mr. Caves says that Canadian companies should do well in the climate created by the FTA with the United States.

"Canadian producers by no means retreat in disarray when import competition stiffens", he says. "During the 1970s, tariff reductions induced rationalizations that involved temporarily increased capital expenditures and yielded higher labour productivity. These fighting responses are consistent with the strong tendency for increases in an industry's exports to accompany increases of the imports with which it competes."

Enquiries about the MITI report should be addressed, preferably, to the Japanese Embassy, 255 Sussex Drive, Ottawa K1N 9E6; telephone (613) 236-8541. Copies of the C.D. Howe Institute analysis, *Zero Inflation: The Goal of Price Stability*, are available for \$15 from bookstores that normally handle government publications or from the Institute itself at 125 Adelaide Street East, Toronto M5C 1L7. The ECC report, *Adjustment to International Competition: Short-Run Relation of Prices, Trade Flows, and Inputs in Canadian Manufacturing Industries*, is available from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Ontario K1A 0S9. The catalogue number is EC11-165/1990E and the price is \$6.50 in Canada, \$7.50 (U.S.) elsewhere.