



GARY BLAKELEY

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meeting in September in Uruguay, the American trade strategy and policy is going to change to reflect this new reality. Even if Canada is the US's major trading partner, 80 percent of US trade is with other countries and it is in its interest to negotiate changes in the world trading system and not simply with one country. The problem of course is that a bilateral trade agreement essentially creates a common market between Canada and the US and leaves Canada and the US free to make its tariff arrangements with third parties. This poses a lot of problems for Canada, if, for example, it were to negotiate separate agreements with Japan and the Americans found these agreements not to their liking. They could bring enormous pressure to bear on Canada. This is the essential problem of free trade from a political viewpoint. It is an arrangement between two asymmetric partners. In a one on one situation the concept of free trade is an intrinsically flawed policy concept as well as a model of decision making between two countries.

EXCAL: How can you then explain, given the supposedly asymmetrical bargaining power of the US and Canada, how we successfully negotiated the Auto Pact?

DRACHE: The Auto Pact of course is not an example of free trade—it is an example of managed trade. The simplest reason the Pact came to be negotiated is that Canada was running a

huge trade deficit in auto parts and it had to find a solution. One of the solutions was to create a Canadian auto industry. The other is a share of the market concept. One of the alternatives to free trade is precisely this. The Canadian and American governments will sit down and attempt to negotiate market shares in a number of areas. Possibly softwood lumber, possibly in a number of energy areas.

EXCAL: This happens now with steel, doesn't it?

DRACHE: Well, steel is an informal arrangement. Canada has roughly three percent of the US domestic market. This is something that could be done across the board. The problem at this time is that the devalued Canadian dollar gives Canadian exporters an enormous cost advantage over their US counterparts. We have to be under no illusions, that the US industries are not inefficient and backwards; they are simply being handicapped by these currency changes. The Americans will be very loathsome to enter into any shared market agreement.

EXCAL: The US does not seem to be interested in sectoral agreements and they want to negotiate in the context of a level-playing field—meaning that everything will be on the bargaining table. Does this mean there can be no chance of sectoral agreements?

DRACHE: Everyone has said that the US is not interested in sectoral agreements and I think

this was true at the beginning when free trade went back on the agenda again in the US. Congress, essentially has shown no interest in a Canadian-US agreement and is not prepared to give increased access to Canadian manufacturers to export into the US. If anything, they are looking for the reverse. If this is the case, the only way the President could sell the idea (of free trade) to the Congress is to offer a bonus issue. The only real issue that would make the Congress sympathetic to a free trade agreement is if the Auto Pact was renegotiated or ended. This would be, for the American Congress, bringing home the crown jewels. This would be totally unacceptable for Canadians and Mulroney's popularity has fallen dramatically over the past year and some of this has to do with his championing of free trade.

EXCAL: A worry of the people is that social programs will be going on the table. Is that a justified fear and how far should we go to preserve our social programs?

DRACHE: The whole idea of free trade on the social and political side is that free trade can only work between two countries if you create a common code that removes barriers to trade. Of course there are different types of barriers to trade. One type of barrier is tariffs, but tariffs, in the 1980s, aren't the issue. After the 1987 cuts in the Tokyo round, 80 percent of the goods enter Canada tariff free. What is central to this issue is non-tariff barriers. These nontariff barriers are important in terms of negotiating any free trade agreement because if you are going to create a common code, you must create a common code in terms of price inputs and other factors, social factors, that affect production costs. Here Canadians have failed to appreciate that Canada and the US, while similar in many respects, are very different social systems of organization. In the area of unemployment insurance, it is really a universal scheme. If you are going to create a level playing field, then something as central as unemployment insurance would have to be part of the deal. You have to attempt to create a common code.

EXCAL: Is the main danger to the free trade talks rooted in federal-provincial relations?

DRACHE: I believe that. There are of course many dangers to the free trade talks. The main danger is the US Congress because they are fundamentally uninterested in any agreement that is going to reduce their control over trade remedy legislation. But at the political level there is a very major problem. While Ottawa has the constitutional power to negotiate international agreements, it does not have the authority to enforce those aspects of a treaty that directly affect provincial powers or jurisdiction. At the heart of free trade is an attempt to create a common code between the two countries and creating a common code means nontariff barriers. To dismantle them (nontariff barriers) means reducing provincial jurisdiction over their economies . . . Mulroney has been very reluctant to involve the provinces in the negotiations and it has really been a provincial initiative to insist that they (the provinces) be included at the bargaining table. There is a certain irony that when Mulroney was in opposition he presented himself as a great decentralizer. But we now see he is not very different from Trudeau on this, that when push comes to shove, Mulroney, despite all his bulroney, is essentially a centralizer and in fact would probably go further in centralizing power in Ottawa at the expense of the provinces.

EXCAL: The spectre of American cultural imperialism has been raised. Many opposed to free trade feel our cultural identity is at stake. How serious is that threat and will certain of our industries, especially publishing and broadcasting, be taken off the bargaining table?

DRACHE: We have to go back to basics. What is the fundamental difference between the American and Canadian perspective of culture. Americans believe culture is a commodity . . . an industry in which one makes money and they see no reason why culture should not be on the table. The Canadian perception is very different. We are talking about Canadian identity. We are deluged with American products in Canada. Under a free trade agreement most of these policies (of the government to ensure a Canadian presence in cultural industries) would go by the boards and Canadian culture, what little there is, would be wiped out. Culture is today one of the fastest growing, most profitable industries in the US. While the economics is so confused . . . the decisive issue is that Canadians feel in their guts that free trade

would make them more vulnerable to American cultural industries than at present.

EXCAL: Would a free trade agreement considerably weaken our economic sovereignty, and if this happens will our room to manoeuvre political be reduced? What effects would a free trade agreement have?

DRACHE: There are aspects with free trade which have not adequately surfaced. A great deal of attention has been paid to the economics of free trade and some more attention to the political ins and outs of the question. There is also the question of foreign policy. Free trade will have an enormous impact on the ability of Canada to take initiatives independent of the US. Free trade would essentially make Canada into a type of satellite country at the political level. (Lester) Pearson (former Prime Minister of Canada) said that if you want to have an independent foreign policy then you have to have a certain amount of economic independence. While our margin of independence, vis-a-vis the US, is slim, we have had some freedom to speak out on important issues. We would be losing this limited autonomy we have if free trade were achieved, the simple reason being that free trade would make Canada more dependent, more vulnerable and more within the American sphere of influence.

When we are talking about free trade we are talking about something that borders on economic union with the US. With economic union comes a much higher degree of political integration with the US and foreign policy is one area where Canadian initiative would be circumscribed . . . by fear of reprisal from the US. This happens now, but with economic union it will happen more frequently.

EXCAL: Is multilateral trade the way out of our economic problems?

DRACHE: One has to have a policy alternative to free trade. The policy alternative, at a minimum, has to be three pronged. The first is to develop an industrial strategy . . . that will allow Canada to modernize its industries, restructure and to become a much more efficient exporter, not just of resources. The second part is a commitment to genuine formal multilateralism. Canada lives next door to a declining imperial power and in the past their economies were complementary. This is no longer the case. Canadian and US firms are vying for the same markets, so they are not complementary but are in fact rivals. Canada needs allies on the world stage. GATT (General Agreement on Trade and Tariffs) is an appropriate body for Canada to find these allies in order to bring about changes in the world trading system.

The third part is Canada should have its priority with reducing high levels of unemployment and creating new jobs. This ties back into the first point: if you are going to have an economy that is expanding . . . then you cannot have the top 50 corporations making the economic, and indeed social, decision which affect us all. We need a commitment to tackle unemployment. So, an industrial strategy, multilateralism and a commitment to reducing unemployment are the basic alternative to free trade.

EXCAL: Don Macdonald, the head of the Royal Commission on free trade, remarked that free trade is a "leap of faith" yet still is in favour of it. Is free trade a "leap of faith" and is it warranted?

DRACHE: The original concept of free trade is dead as a dodo. There is no possibility today that Congress is going to accept a deal with Canada without a bonus issue, and the bonus issue is dismantling the Auto Pact. On the Canadian side, free trade has proven to be a disaster in the polls for Mulroney. Mulroney will be forced to find a way to essentially distance himself from this issue which has virtually no popular support in the country. Politically and socially Canadians are not willing to risk Canadian independence or control of their economic space for an idea whose economic benefits are not clear. It seems clear to me after a year of debate that the economic evidence simply isn't there to warrant free trade with the US.

EXCAL: Are we going to get free trade?

DRACHE: My prediction is that the free trade initiative is in serious trouble and probably will be dead within a year . . . What we are going to see in the next year is a lot more opposition from a variety of groups. These groups are those whose jobs are in the industries (threatened by) free trade. If the popular sector groups are able to mobilize Canadians, the issue will be dead.