

Canadian trade policy in the 1980s

by Keith A.J. Hay

It is now one hundred and three years since Prime Minister Sir John A. Macdonald announced Canada's National Policy and set the country off on a curious mix of protectionist and free trade policies. Over the last century, Canada has veered only slightly from this pragmatic path, espousing freer trade as the long-run objective while improvising temporary trading restraints or reluctantly surrendering modest fractions of existing protection levels. Much of the hesitation to move resolutely toward liberalization can be traced to nation-building considerations and anxiety that freer trade, especially with the US, would inevitably lead to both economic and political domination. Even today there is within Canada a broad range of opinion on trade policy which debate it from entirely different viewpoints. Moreover there is no political consensus on trade policy within federal political parties and therefore no definable policy distinctions among them.

Free trade has been traditionally advocated by Canada's neoclassical economists. Numerous public documents, including the Economic Council's *Looking Outward*, 1975, a string of publications from the C.D. Howe and Fraser Institutes, and the Canadian Senate Committee Report on Foreign Affairs, 1979, have advocated freer trade, especially with the USA. Their arguments find favor with academics, but have failed to catch the public's imagination. At the same time, the Science Council of Canada in a variety of reports in the last half of the 1970s has been "looking inward," advocating establishment of world product mandates, enhanced research and development subsidization, the assignment of specialized production roles for Canadian subsidiaries, and sustained or even increased protection for manufacturing industries. These protectionist arguments have been combined with the foreign ownership issue by such organizations as the Committee for an Independent Canada and the recently organized Canadian Institute for Economic Policy.

The policy outcomes during the 1970s were as complex and multi-directional as the arguments advanced by academics, institutes, businessmen and government agencies for and against them. For instance, during the GATT Tokyo Round of Multidirectional Trade Negotiations (MTN) it was widely recognized that Canada was com-

mitted to both lowering tariffs and dismantling non-tariff barriers. Agreeing to revise the Canadian customs valuation system was perhaps the single most important commitment to freer trade made by Canada in the last fifty years. Moreover Canada's General System of Preferences contains no volume limits and is therefore clearly more liberal towards third world exporters than any other among the Organization for Economic Cooperation and Development (OECD) nations. On the other hand, during the 1970s, there has been a proliferation of Voluntary Export Restraint (VER) agreements, requested by Canada of other countries (mostly matching in item and origin those previously arranged between the USA and offshore suppliers), and a discernible shift toward more nationalistic foreign investment policies. These latter are not strictly speaking "trade policies," and even though they only marginally bear on the international exchange of goods and services, they are often typified as the leading edge of Canadian protectionism.

The working of the Foreign Investment Review Agency (FIRA) from 1975 to 1979 was viewed domestically as no more than a minor hurdle to foreign capital inflows. The proportion of proposals disallowed by Cabinet fell from 13.0 percent (1974-75) to 4.1 percent (1977-78), averaged 7 percent in the following two years, and then started to climb in 1980-81. Following upon the 1980 Liberal return to power on a platform that included a strengthened and expanded FIRA not only did the turndown rate jump to 10.7 percent (1980-81), but at 12.8 percent the proposed withdrawal rate doubled the average of the previous three years. A slowdown in processing is indicated by the presence of 312 unresolved cases at the year-end of 1980-81, compared with an average of exactly half that many in the previous three years, even though the number of applications remained close to the 1977-80 average. This harsher policy has been unpopular on *both* sides of the Canada-USA border, and the government is now backing away from many of its more contentious aspects.

A similar argument should be made about the National Energy Program: the worst is over. Most of the "enforced" sell-offs by foreign energy corporations have now gone through, and many of the Canadian corporate incursions into the US stock market have been consummated or repulsed. The seven major purchases cost \$5.9 billion. In retrospect, Canadian corporations moved too precipitously and spent too rashly, often getting less for more. In the light of persistently high interest rates and depressed

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