

Trade Policies

accorded the full support of co-ordinated national policies and the countries' human and natural resources.

● (1610)

A brief overview of Canada's situation today can be stated. Canada has a large resource sector in forestry, minerals, energy, and agriculture, in which we have a favourable balance of trade in excess of \$12 billion. We have a manufacturing sector developed, in large measure, in response to our tariff policy to serve the small Canadian market only, in which we have an unfavourable balance of trade in excess of \$10 billion. There is a chronic imbalance of payments in invisibles of approximately \$9 billion a year. Canadians have a concern about foreign ownership and control which we cannot begin to address until we halt our imbalance of payments and stop borrowing the savings of foreigners to cover the same.

I suggest that we must soon seek to negotiate a free trade agreement with the United States so as to draw even with them in due course. There is the immediate, obvious disadvantage of the loss of our tariff protection, but there are these comparatively low protective levels which now prevail or will prevail following recent agreements. There will be a period of dislocation and adjustment, but hardly on a disruptive scale.

On the other hand, what do we gain? Canada gets free access to the huge United States market and becomes part of what I would consider the world's best trading bloc. Our United States competitors all have a large home base market from which to compete with us. We need the same advantages they have. Canada-U.S. free trade is not just access to the U.S. market. It is the creation of a large base from which to develop world-scale plants. It would result in our slowly rationalizing our branch plant economy where we try to make one of everything, with its attendant problems of foreign ownership, foreign control, and lack of Canadian research and development.

Basically in a bilateral free trade situation the exchange rate would replace the tariff and become the moderator. This has a great advantage as a lower Canadian dollar has a double benefit of inhibiting imports and helping exports, whereas a tariff only provides one of these benefits. In order to succeed we would be required to discipline ourselves by adopting measures to increase capital formation by Canadians.

As a result of the Economic Council of Canada report, the Senate committee report, the C. D. Howe Research Institute position, the statement of our new Minister of Finance (Mr. Crosbie), the hon. member from somewhere in Newfoundland, and the positions of a number of individuals knowledgeable in the field who all support at least a study of Canada-U.S. free trade, the subject has come to the fore. Proposals for a Canada-U.S. free trade agreement are simply aimed at strengthening the Canadian manufacturing sector by rationalizing it over a period of time in the context of today's situation where it has lost its traditional high tariff protection.

During the last five years it has become increasingly obvious that Canada's competitiveness in manufactured goods is limited. Canadian manufacturing suffers from high capital costs,

[Mr. Herbert.]

lower productivity than in the United States, less product specialization, small production runs, much less indigenous research and development, and substantial market fragmentation. All of these factors have meant that Canadian manufacturers have great difficulty in producing competitive or attractive exports to the United States.

These would be problems for the Canadian manufacturing industry, whoever owned it, but these problems are in many instances compounded by the fact that the United States is at the same time our major trading partner and the owner of much of our manufacturing industry. The effects of high levels of U.S. investment in Canada have been extensively analysed. The establishment of large numbers of United States manufacturing subsidiaries or branch plants and, concurrently, a high degree of American ownership in such primary resource sectors as fossil energy and other minerals, tie us inevitably more tightly to a single regional North American economy. For example, we have lost control over the development of our mining and manufacturing sectors and are more vulnerable to the strategies of U.S.-based multinational corporations, with global interests, which may shift their investments to lower cost regions without consulting Canadian needs.

I might point out that as late as yesterday I was talking about what business in Canada will do. I was not criticizing businesses when they look for the most profitable location and therefore do not take into account the need for development in areas of Canada of high unemployment. Here again, without government intervention in some form, this is going to continue to increase, and I suggest that unless the government makes up its mind fairly soon to look more carefully at the efforts of the Department of Regional Economic Expansion, we could be in serious trouble in the province of Quebec.

We are closely connected to the United States in our monetary and fiscal policy. Our foreign debt has grown as we have borrowed to cover our current account deficits, leaving us little flexibility in our interest rate policies.

The recently concluded GATT agreements, in pursuing the laudable goal of trade liberalization, will bring us to a situation of virtually complete free trade with the United States. In eight years, when implementation is complete, 80 per cent of current Canadian exports to the United States will enter duty-free. To the sectors which already operate under virtually free trade—the automotive industry, defence production, and farm machinery—will be added forest products and edible agricultural products. Over all, well over 90 per cent of current Canadian exports will enter the U.S. market at insignificant tariffs of 5 per cent or less.

Accordingly, trade flows between the United States—

The Acting Speaker (Mr. McCain): Order, please. I regret to advise the hon. member that his time has expired. He can continue only with the unanimous consent of the House.

Some hon. Members: Agreed.