

nations. The problem is not one that has suddenly developed overnight. Instead, it is one that has been developing for some years. In a document published in 1983 entitled *Canadian Trade Policy for the 1980s*, the former Liberal Government warned:

Our competitiveness is slipping compared to our major trading partners and we are not as well positioned as our competitors to export manufactured goods—the area of greatest anticipated growth in the 1980s.

A similar warning was sounded more recently by the Canadian Manufacturers' Association. Given the right policies, the Association said:

Canada's employment of two million people in manufacturing could be increased by 25 per cent by the year 2000. That prospect would grow more and more elusive if we just kept on our present course . . . Our major competitors are already ahead of us in the productivity race.

The fundamental problems created by Canada's small domestic market and lack of secure and more open access to a larger market has been accentuated by what the CMA have characterized as a "world scale explosion of new technologies" that has by now set in motion a "fourth industrial revolution".

Most critical of all, however, is the increasingly severe problem faced by a number of Canadian manufacturing industries that are falling progressively further and further behind in the international competitive race because their lack of assured access to a major market results in declining efficiency and heavy costs. The result is that the productivity of our manufacturing sector is in the order, on average, of 25 per cent or more below that of the United States which, in turn, results in substantially lower real incomes in Canada.

In the early 1960s, the process of rapid technological change was threatening to drive the Canadian auto industry to the wall because the relatively small domestic auto market failed to provide the volume of sales required to achieve maximum efficiency and the lowest possible costs. The Macdonald Royal Commission underlined the fact that it was only because of the opening up of the U.S. market under the Auto Pact that the Canadian automotive industry was able to achieve the strong and healthy growth it has experienced over the past two decades.

The problems facing the auto industry in the early 1960s are very similar to those that now face a number of other manufacturing sectors, stated the Commission. It said:

Our industry urgently needs to increase economies of scale in order to realize greater productivity.

To achieve that important objective, it requires assured and open access to a large market such as that offered by the United States.

The economic benefits that would flow to Canada from the implementation of a comprehensive trade agreement with the United States would depend on a number of factors, particularly the extent of the reduction or elimination of the existing barriers and the provisions made by phasing in the reduction of those barriers over time.

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Assuming that the agreement is broad in scope and phased in gradually, a number of calculations have been made by several of Canada's outstanding economists. On balance, they have concluded that the benefits for Canada would be very significant in terms of increased output, of employment, and the real incomes of Canadians.

It has been estimated, for example, that Canada's annual national output would increase by some 3 per cent to 8 per cent as a result of a trade agreement with the United States, which is on top of normal growth that might be expected.

Similarly, it has been calculated that the number of new jobs created might increase by as much as 5 per cent within two years of the start of the implementation of an agreement.

By one estimate, real incomes in the manufacturing sector could be expected to increase by some 28 per cent as the productivity of that area of the economy moved into line with that in the United States. In addition, one well known firm engaged in economic analysis, namely, Informetrica Ltd., recently concluded on the basis of its projections that a comprehensive trade agreement with the United States "would provide positive results from the beginning, and across almost all sectors and provinces".

Not the least of the benefits that would flow from a comprehensive trade agreement with the United States would be a significant reduction in the relative costs of a great many of the things that Canadian consumers buy directly and indirectly, together with a substantial increase in the range of consumer choice.

The initiative undertaken by this Government in proposing the launching of the negotiations aimed at reaching agreement of a broad nature with the United States has commanded strong support of several major business organizations and national economic institutions in Canada. This approach was also strongly recommended by the Macdonald Royal Commission on the Economic Union. The Commission declared:

We are convinced—that the potential economic benefits to Canada of freer trade with the United States far outweigh the costs, and that the principal hazards can be met by instituting appropriate policies of adjustment. Given Canada's increasingly isolated position in the international economy at large, it is difficult, in any case, to conceive of a genuinely effective policy alternative.

Among the many advantages that the Commission considered would be yielded by a trade agreement was that it would enable Canada so to strengthen the competitive capacity of its economy over time that it would be able to reverse and reduce its growing dependence on the United States economy through increased exports to other markets around the world. Paradoxically, we believe that improved and secure access to that market will, in the long run, be the best means of achieving greater diversity of our economic and trade relations.

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One of the most immediate and important gains that we would expect to obtain from a comprehensive trade agreement is a substantial measure of protection for Canadian exports from both present and prospective U.S. protective trade