

FREE TRADE

Part Two: an opponent's view

EXCAL: People, after reading articles about the free trade debate seem to come away more confused than when they started. So what exactly is the whole debate about?

DRACHE: Free trade is back on the agenda in Canada today mainly because the government believes, and the business community believes (that free trade) is going to put the economy back on the rails. The essential idea is that the American market is a huge one and if Canadian manufacturers can get access to this market, that is not be restricted entry through tariff or nontariff barriers, the Canadian manufacturers and industries are going to make economies of scale and they are going to become more competitive. Supposedly, if you develop economies of scale the price of Canadian goods is going to fall. The basic idea of free trade is that it is a model of export-led growth.

It seems to me it is on the agenda for two reasons. The first is the business community's belief in the "return to market-driven economics," part of the neoconservative business community's agenda. This is the primary interest of big business and corporations in Canada. It's also the ideological direction of the Mulroney government—a belief that we should return to some form of competitive capitalism where the market is going to allocate goods and services, and determine incomes. The second reason free trade is on the agenda is the current economic crisis, where the Canadian economy has moved into a period of slow economic growth and is looking for new ways of economic stimulus. The belief is that accessibility (to the US) is going to create an economic miracle for Canada.

EXCAL: Recent commentaries on the free trade debate have suggested that Canada is at a crossroads. The proponents of free trade have maintained that the choice is between free trade or protectionism, and view the recent shakes and shingles episode as an excellent example of what will befall Canada if a free trade agreement is not reached. Do you subscribe to this point of view?

DRACHE: I think that both the government and the business community have used this idea that the choice today is between free trade or protectionism. I think this is not the case whatsoever. . . . We have a lot of different choices. Countries that have been able to adapt to the new international environment are countries which manage their trade, that have a powerful industrial strategy in which government, industry and labour are able to agree on fundamental objectives for the economy. Japan and Germany are examples. The real choice for Canadians is clearly whether we want to let the market decide, and what we mean by the market is the 50 multinational corporations that run the economy today—or having some

sort of economic consensus concerning the direction we want to go.

The second choice for Canadians is not free trade, but is a question of bilateralism or multilateralism. If you stand back and look at what free trade is, it's really the elites of Canada getting together to create a protectionist wall around North America, in which the Canadian elite would have some junior role to play in this scheme. Bilateralism is a form of protectionism because it's directed against the Third World and European nations. This is quite different from multilateralism, which is essentially the GATT process. The question I suppose, strategically and politically, is are our interests better served by going the multilateral route where there are many countries which want to force the Americans to make concessions and which want to uphold their (the US) formal commitment to liberalized trade. . . . As a declining imperial power, the US, protectionism is on the rise and the type of accessibility Canadian business is looking for is not going to be found through the bilateral route but through the multilateral route.

EXCAL: Proponents of free trade suggest that other markets, such as Europe, Japan and South-east Asia, offer little hope for expanded trade and therefore we must look to the US.

DRACHE: This has been the longstanding view of Canadian business, but I think if we look at the experience of trade liberalization in the '70s, particularly the idea that specialization will make Canadian industries more competitive, we saw that most of the specialization that took place had a very particular meaning; we are specializing down—not specializing to producing goods and exports of higher value added. Canadian manufacturers are becoming specialists in subassembly and shipping components. When we look at the record, and not the theology of trade liberalization, one of the weaknesses of free trade is that it will make us more dependent on the American economy rather than more innovative. (It will) force a type of restructuring that is going to make Canadian goods and Canadian industries competitive in the international marketplace.

Canadians have paid a very high price for the insularity of the business community, who because of historic ties with the US believes that playing the subassembly role is satisfactory. I think this has made Canadian manufacturers terribly inefficient. We are hanging on to the coattails of an industrial country in decline and we are not diversifying through other markets.

EXCAL: Would Canada, with free trade, then become a warehouse economy?

DRACHE: Within North America there is new

In the second of a two part series examining the pros and cons of the free trade issue, *Excaltibur's* Kevin Bray and Lorne Manly interview Daniel Drache, a political science professor at Atkinson College. Drache, a faculty member since 1971, is co-author of the Other Macdonald Report which attacks the Donald Macdonald Commission on free trade for its failure to take into account the opinions of "ordinary" Canadians. In this week's feature, Drache explains why he believes free trade is not the panacea its proponents say it is, and outlines steps Canada should take instead to solve its economic problems.

division of labour occurring and Canadians are being turned into, to be competitive, manufacturers of widgets—small parts and components, not whole products. If this continues, then we are going to be in the low end of value added and this means low wages and a lower standard of living.

EXCAL: The proponents of free trade argue that we will suffer low wages and incomes if we don't get free trade.

DRACHE: I think we should untangle two arguments. If we got free trade there would be an adjustment process. There are two parts to adjustment. One is how many jobs and industries would be affected and the other is whether Canadians would have a higher standard of living. On the question of jobs, all the studies done, including the Ontario government and the Macdonald commission, which gave the figure of a million and a half Canadians being forced to leave their present jobs and find other work. Where will these workers go? Are they going to the service sector? Electronics? Where exactly? It seems to me Quebec and Ontario will be enormous losers in terms of jobs lost, as well as smaller manufacturing groups in the Western provinces and the Maritimes.

Secondly, on the gains from free trade, on the gains in the standard of living. I suppose if you took a strictly economic perspective you could attempt to calculate, as Harris and Wonnacott and others have done, or create an economic model that says that over a certain period you will have increased trade and with increased trade you get an increase in the standard of living. If we think of free trade being phased in over a 10-year period, Harris' figures show a gain in GNP growth of roughly three percent. But a lot of his data is based on 1971 tariff levels and his original study showed an eight percent growth in GNP. The gains in the actual increase in the standard of living, three percent, are minimal. Further, Harris assumes full employment. I think the economic evidence (for free trade) isn't there. This explains the hesitation of Peterson and skepticism of Bourassa. The hard economic evidence simply isn't there.

EXCAL: If we don't get a free trade agreement,

what can we do to avoid the growing American protectionism, especially nontariff barriers?

DRACHE: I think one needs some perspective on American protectionism. There have been roughly over 400 bills in the American Senate and Congress during the past three years and roughly six have dealt specifically with Canada. Most of these bills are targeted at Japan and the newly industrializing countries of the Third World. We have to understand that American industries are paying a terrible price for Reaganomics and that until recently the over-valued American dollar has opened US markets to foreign goods and American industries have been reeling. The US economy has never had to face this kind of market penetration. The protectionist response (of the US) isn't of the type of the '30s—beggar thy neighbour—but is an attempt to defend the jobs and communities of America that are reeling under the policies of the neoconservative government of Reagan.

Even if the Americans historically have advocated free trade, they have also strongly believed in Congress and the President maintaining the right to invoke US trade remedy legislation against other countries who export to the American market. This is powerful legislation involving countervale measures against dumping, that the American Congress is not prepared to give up even if there is a free trade agreement with Canada. Israel, in its free trade agreement, is still subject to countervale legislation.

EXCAL: What is countervale legislation?

DRACHE: This is the power of the Congress to protect industries when they are hurt by what they regard as unfair competition. I think Canadians are beginning to understand that free trade with the US is not going to exempt Canada from trade remedy legislation. This calls into question the whole rationale of the free trade initiative of the Mulroney government.

EXCAL: If a bilateral trade agreement with the US was successfully negotiated, how would third countries repond?

DRACHE: Now that GATT is back on course, and

A FREE TRADE GLOSSARY

AUTO PACT - The Automobile Products Trade Act. Negotiated in 1965. The pact allows for tariff-free importation of us automobile products by Canadian manufacturers. It also requires that 10 percent of the automobiles sold in North America be made in Canada.

BILATERAL TRADE - trade between any two countries.

DUMPING - the export of a commodity below cost or at least the sale of a commodity at a lower price abroad than domestically.

GATT - the General Agreement on Tariffs and Trade. It is an international organization devoted to the promotion of freer trade through multilateral trade negotiations.

GNP - Gross National Product; the total output in dollar terms of goods and services in the economy during the year.

KENNEDY ROUND - the multilateral trade negotiations completed in 1957 under which agreement was reached to reduce average tariff duties on industrial products by 35 percent.

MULTILATERAL TRADE - trade with more than one country.

NON-TARIFF BARRIERS - trade obstacles outside of tariffs which include licensing agreements, procurement policies favouring domestic products, anti-dumping regulations, and subsidies for exports.

SMOOT-HAWLEY TARIFF ACT OF 1930 - legislation passed by the US congress which raised import duties to the all-time high of 59 percent.

TOKYO ROUND - the multilateral trade negotiations completed in 1979 in which agreement was reached to cut average tariff rates by about 30 percent and to adopt a uniform international code of conduct for applying non-tariff barriers.