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No. 76

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NOT FOR PUBLICATION BEFORE
18:00 HOURS, OCTOBER 17, 1972

CANADA-U.S. RELATIONS:
OPTIONS FOR THE FUTURE

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

A special issue of International Perspectives, released today, contains a major study of Canada-U.S. relations by the Honourable Mitchell Sharp, Secretary of State for External Affairs.

The article examines the integrating forces that are at work in North America. It endeavours to assess the impact of these forces on Canada in the light of changing attitudes and changing realities on both sides of the border. In the face of the inherent pull of continental forces, the article identifies three options as being open to Canadians:

To try to maintain something like the present position with a minimum of policy changes;

To move deliberately toward closer integration with the United States; or

To pursue a comprehensive, long-term strategy to develop and strengthen the Canadian economy and other aspects of Canada's national life.

The article proceeds, as did the Government's foreign policy review, from the assumption that "living distinct from, but in harmony with, the world's most powerful and dynamic nation, the United States" is one of the "inescapable realities" against which any policy option for Canada must be assessed. It argues that "there is no intrinsic reason...why Canadian distinctness should in any way inhibit the continued existence of a fundamentally harmonious relationship between Canada and the United States" in view of the many things the two countries hold in common both as continental neighbours and as members of the international community.

The article considers the first option to be inadequate because it does not come "fully to grips with the basic Canadian situation or with the underlying continental pull" and thus involves a risk that Canada might find itself "drawn more closely into the U.S. orbit." The second option is also rejected because, whatever the economic costs and benefits of closer integration with the United States, it is judged unlikely that "this option, or any part of it, is politically tenable in the present or any foreseeable climate of Canadian public opinion". The article concludes that, of the three options presented, the third is the one best calculated to serve Canadian interests because it would over time lessen "the vulnerability of the Canadian economy" and in the process strengthen "our capacity to advance basic Canadian goals" and develop "a more confident sense of national identity."

The article is based on studies which have been in progress over the past year. While these studies are continuing, they have reached the stage where it is possible to present a balance sheet of some of their main assessments and conclusions. That is the purpose of the article. In its preparation Mr. Sharp notes that he has had the benefit of the advice and assistance of his colleagues in the Government and of officials in the Department of External Affairs.

Summary of Article on "Canada-U. S. Relations -
Options for the Future"

The article examines past developments in Canada-U. S. relations, the current state of the relationship and three basic options for the future conduct of Canada-U. S. relations.

THE PAST (Pages 2 to 6)

In the first part, entitled "the Continental Pull", the paper reviews the historical development of the Canada-U.S. relationship with particular emphasis on the period from World War II to the present. This review examines the evolution of interactions between the two countries, and of the "continental pull" in the political, defence, economic and cultural fields. The paper notes that the present shape of the Canada-U. S. relationship was developed during World War II and the post-war era (page 3). This is the era of the "special relationship". Canadian attitudes were heavily influenced by the experience of the war, by the need for U.S. leadership and involvement in international affairs, to reconstruct a peaceful world order, by the Cold War and by the development of international institutions such as the United Nations, NATO, and the expanded Commonwealth. Canada-U.S. ties and Canada's dependence on the United States in the defence, economic, cultural and political spheres increased substantially during this period. This section concludes that:

"On balance, it is apparent that it is in the economic and cultural fields that the North-South pull has been especially strong. This is because advances in communications and modes of production and economic integration favour large units and markets and add to the pull of geography. On the other hand, in

the defence and political fields, continental linkages have not significantly increased in recent years. The strongest continental pulls appear to derive from the ubiquitous presence of U.S.-owned subsidiaries of large multinational corporations, and from the wealth of informal, non-governmental ties between private groups, associations and individuals. Paradoxically, as these ties have expanded, the capacity of Canada to develop economically and culturally with less reliance on the United States and the outside world in general has also increased". (page 6)

THE PRESENT (Pages 6 to 13)

In the second section, entitled "the Changing Context", the paper states that the post-war era in international relations has ended and is giving way to a new world framework. This judgement formed the basis for the comprehensive reviews of their foreign policy carried out in both the United States and Canada. Both countries saw a relatively diminished role for themselves in the new scheme of things, subject to their very different responsibilities and a need for foreign policy to be shaped by national objectives and interests (pages 6 and 7).

While Foreign Policy for Canadians did not examine Canada-U.S. relations in detail, it underlined the impact of the United States on virtually all aspects of our foreign relations. The Canada-U.S. relationship was presented as one of two inescapable realities, crucial to Canada's continuing existence, the other being national unity. In contrast, the United States review did not specifically deal with Canada, except in broad foreign policy terms, in the context of the Nixon doctrine. While that doctrine, in the words of the President, recog-

nizes that "mature partners must have autonomous independent policies", there is a momentum outside of governmental policies for increasingly interdependent but inevitably unequal ties between the two countries. Moreover global policies of the United States, such as the "New Economic Policy" of last year, can over-ride bilateral policies with particular impact on Canada. The economic problems facing the United States, combined with the national mood of uncertainty and concern with domestic social problems, are likely to emphasize the shorter-term national interests and to require relatively more government involvement in the economy in the future. U. S. interests generally appear to favour a reformed, orderly and effective trading and monetary system. Failure to achieve this could strengthen existing elements in the U.S. society which are more isolationist. While there is little evidence of a deliberately continentalist American economic strategy, U. S. policies and interests on particular issues, ranging from the Auto Pact to pollution and energy needs, could, in practice, converge towards a more continentalist position.

The paper summarizes changing Canadian attitudes in the following words:

"It would appear that Canadians remain aware of the benefits of the American connection, but that today more than any other time since the Second World War, they are concerned about the trend of the relationship and would seem willing to contemplate and support reasonable measures to ensure greater Canadian independence." (page 11)

This attitude reflects national concerns about problems of national unity, regional disparities, future prosperity, employment, quality of life, which seem to call for distinct Canadian solutions.

OPTIONS FOR THE FUTURE (Pages 13 to 20)

A substantial degree of interdependence between the two countries is both inevitable and profitable for Canada. The real question is whether: "interdependence with a big, powerful, dynamic country like the United States is not bound, beyond a certain level of tolerance, to impose an unmanageable strain on the concept of a separate Canadian identity, if not on the elements of Canadian independence." (page 13)

The first option, maintenance of the present relationship with a minimum of policy changes (pages 13 and 14), represents a pragmatic policy of adjustments to present policies, when and if required. It presumes that present and foreseeable future changes in the Canada-U.S. relationship are not of sufficient magnitude to require a basic reorientation of Canadian policies, particularly policies vis-à-vis the United States. The general thrust of trade and industrial policies and the present practice of dealing with problems as they arise, would be maintained. This option would seek to avoid further increases in our dependence on the United States. The underlying risk in this option is that a purely pragmatic policy might, in fact, result in our being drawn more closely into the U.S. orbit with this option thereby becoming untenable.

The second option, closer integration with the United States (pages 14 to 17), comprises a range of possibilities from partial or sectoral arrangements (in such areas as the chemical industry), through a free trade area or customs union to political union. The underlying premise is that present and future economies of scale in manufacturing and trade require markets of continental size. The basic risk with any move in this direction is that such moves are likely to encourage further similar moves while limiting our capability to develop our relations with other areas.

Canada would also be subject to the greater influence and power of the United States with less countervailing influence from third parties. Integration would presuppose favourable decisions in the United States and require coherent policies with a transitional period and safeguards for Canadian industry and agriculture. The fundamental issues are clearly political - i.e., whether this option is tenable, given present and foreseeable future public opinion in Canada. The danger of economic pressures leading towards ultimate political union with the United States would probably engender opposition throughout the country.

Option three, a comprehensive strategy to strengthen the Canadian economy and the other assets of national life (pages 17 to 20) would aim at lessening the vulnerability of the Canadian economy to external factors - in particular, the impact of the United States. It would also strengthen our capacity to achieve basic Canadian goals and to further a sense of national identity. This option recognizes that the strategy would take time to succeed and that in an interdependent world, limits exist to the degree of desirable immunity.

This option also assumes that the basic nature of the economy, including our dependence on exports, will continue.

"The object is essentially to create a sounder, less vulnerable economic base for competing in the domestic and world markets and deliberately to broaden the spectrum of markets in which Canada can and will compete." (page 17).

Necessary aspects of the strategy would include specialization and rationalization of production, the development of strong Canadian-controlled firms, close co-operation among governments, business and

labour, and a conducive climate for Canadian entrepreneurial activity. The strategy could entail the use of such policy instruments as fiscal policy, monetary policy, the tariff, rules of competition, government procurement, foreign investment regulations, and science policy. While such a policy would involve somewhat greater government involvement in the economy and effective cooperation between the federal and provincial governments, the policy would not involve radical alternations of relationships or objectives. Such a strategy, applied over time, would not involve any drastic changes in our relationship with the United States and would possibly serve U.S. interests in promoting a more liberal world trading environment.

In the future conduct of Canada-U.S. relations Canadians will not be able to take their cultural environment for granted (pages 19 and 20). Certain essential choices have already been made. (For example, two approaches have already been applied, regulatory measures through organizations such as the C.R.T.C., and direct government support for cultural activities.) Extension of such policies to other areas, and their international projection would, under this option, further enhance the goals of the federal and provincial governments in developing the socio-cultural environment in a distinctive way.

SUMMING UP (Pages 20 to 24)

Foreign Policy for Canadians noted "the complex problem of living distinct from, but in harmony with, the world's most powerful and dynamic nation, the United States". Distinctness, a reasonable degree of independence and harmony are essential criteria in weighing these options. In terms of distinctness, for example, the first option does not represent an advance in achieving a distinct Canadian way of life. It is not

in fact a strategy and implies an essentially reactive posture to the policies of others.

The second option would involve direct risk to a distinct Canadian identity and to the domestic consensus in Canada.

The third option, while recognizing the trends and limitations of global interdependence, looks to the mutually-reinforcing use of various policy instruments as the proper strategy to achieve greater Canadian distinctness. It acknowledges the realities of the Canada-U.S. relationship and the fundamental community of interests that lie at the root of it.

Whichever option is chosen, it is necessary to maintain harmony with the United States, which is founded on a "broad array of shared interests, perceptions and goals"; and can be served by "a Canada more confident in its identity, stronger in its capacity to satisfy the aspirations of Canadians and better equipped to play its part in the world".

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