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## CANADA AND THE UNITED STATES - A VITAL PARTNERSHIP

Address by the Honourable Robert H. Winters,  
Minister of Trade and Commerce, to the  
Cincinnati Council of World Affairs Cincinnati,  
Ohio, November 3, 1967.

I am honoured to have this opportunity to meet and talk with the members of Cincinnati's Council on World Affairs. In this age of printed and electronic communications when almost all our dealings are conducted on a once-removed basis, the value of first-hand face-to-face communications such as this is great.

There are numerous topics I should like to discuss with you today. I hope my brief opening remarks will give rise to many questions on which we can exchange views. When this meeting is adjourned, I hope we will all leave here with a little better understanding of each other's viewpoint and our countries' problems and prospects, goals and aspirations.

This is a region for which Canadian-American relations have a special historical significance. Canada and Canadian trade have long played a part in the development of the Ohio Valley. The first European to explore this region was one of our early Canadian explorers, the Sieur de La Salle. From New France this trail-blazing pioneer made his way down the uncharted Ohio River nearly three centuries ago. I should like to think this first Canadian visitor set a precedent for his successors to follow, except that the good seigneur met death at the hands of some inhospitable early Americans a little further south. It still remains to be seen as to what fate awaits me - but on this visit I do not plan a more southerly penetration.

Later, in the eighteenth century, the Ohio Valley ranked as one of the major sources of furs for the traders of Montreal, opening up an avenue of mutual commercial advantage which has remained open to the present. Today, Canadians look to Cincinnati not for furs but for many of the tools of modern industry, particularly the machine tools for which this city has attained well-deserved international renown.

I have read enough of your history to know that many of your great and revered names had their origins in the old country and are thus intertwined

with our own. I know the pride you take in them. It is in fact not difficult to find long lists and large areas of common interests between our past and between our present.

Canadians today look to the United States for many products and provide a nearby market for many U.S. exports - a fact that is not always given the weight it merits when attention turns to the international trading relations of the most powerful and prosperous nation of the world. Of every \$4 Americans make from foreign sales, \$1 comes from Canadians. Canada buys more from the United States than does any other country, more in fact than all the countries of the European Common Market combined, two and a half times as much as all of South America - and considerably more than you buy from us.

In round figures, Canada buys from the U.S. about \$1 billion more goods and about another \$1 billion more services than you buy from Canadian sources. To obtain some sense of the proportionate burden the financing of this deficit places upon the Canadian economy, imagine the U.S. economy running a current account deficit of nearly \$30 billion in its dealings with another country.

Put another way, for every \$100 of production in the U.S., Americans buy goods worth 80 cents from Canada, while Canadians spend \$12.50 on goods from the United States for every \$100-worth we produce at home.

But even talking in these terms understates the realities of our trading relationship. It is perhaps more significant to talk in terms of people: the average American buys a total of \$31 in goods from Canada in a year, while for every Canadian man, woman or child we buy an average of \$361-worth of American goods.

Much the same story is told as far as international investment between our two countries is concerned. Canada provides a close, stable and attractive outlet for a substantial volume of U.S. capital. Foreign interests have a total stake of better than \$33 billion in the Canadian economy. Half this investment is concentrated in the direct ownership of a share in Canadian enterprises. And three-quarters of this direct investment in Canada by non-Canadians is in the hands of residents of the U.S.

These are impressive figures. They naturally give some cause for Canadian concern as to whether undue control over our resources rests in foreign hands. But consider this: per person, Canadians invest better than one and a half times as much in the United States as Americans invest in Canada. This contribution is to some extent swallowed up in the huge domestic economy of the United States, but it is significant nevertheless, and well worth consideration in any attempt to discuss the basis of the Canadian-American partnership.

These are some of the facts and figures that tell the tale of a very special relation between the biggest and richest nation in the world and its smaller neighbour, which is by any other standard doing not too badly. It is a relation which brings great benefits to both partners; and as the figures suggest,

this is a relation in which the balance of benefits is perhaps not unduly weighted in favour of one or the other. You will understand, however, that living next door to the greatest country in the world, whose actions have such a great influence on us, but over which we have little or no control, brings with it a special crop of problems.

The word "interdependence" is greatly overworked. But where Canada and the United States are concerned it is not just a word, it is a way of life. And with it come certain international responsibilities and the need to consider carefully any steps which would imperil the balance of this relation. Only nations as closely linked in their geography, history, culture and outlook could, over 150 years, successfully operate such a relation founded on mutual respect and understanding and above all, mutual advantage.

Let us make no mistake about that. It is not altruism or a sentimental continentalism that leads responsible Canadians and Americans to welcome this vital partnership. It is a partnership based upon a keen awareness of the mutual benefits we both can expect. Not self-interest but short-sightedness is the enemy of the harmonious continuation of this special relation. For the national self-interest of both Canada and the United States dictates a determination to continue actively to seek the efficient rationalization of production and, wherever practical, the lowering of consumer prices and production costs that the relatively unimpeded flow of goods and services and capital across our border brings in its train.

This process, which provides the underlying rationale for all international trade and investment, takes time to work out. Time may, on occasion, elapse before the full benefits become apparent. And, on occasion, the temptation may arise to seek some short-term advantage, heedless of the self-defeating consequences of such actions, which threaten the disruption of harmonious inter-relationships between our two countries. But it is a temptation which must be resisted by responsible people in both our nations - people prepared to point up the fallacies in this approach.

There are, nevertheless, some points of genuine friction which must naturally develop. We cannot look these problems frankly in the face and then quickly pass on, as one wag has suggested. We must realistically come to grips with these difficulties and search out ways and means to solve these problems.

The first consideration I should like to raise with you tonight concerns the consequences of your nation's pre-eminent financial and political role in the world community. In Canada our problems are simple to define, though difficult to solve. Our balance-of-payments problems are trade problems. We must keep our current account in balance or make up the difference by attracting foreign capital. Any short-falls must be financed with gold and foreign exchange out of our reserves. For more than a decade, our annual deficit on current account has hovered around \$1 billion. To lower this deficit, we must bend every effort to strengthen our export performance with special emphasis on an upgrading of our foreign sales and on improvement, particularly in sales of manufactured goods.

That's the world picture. As I have already mentioned, our bilateral deficit in our dealings with the United States over the past few years has been around \$2 billion. Inflows of U.S. capital have very rarely come close to covering this deficit. At the same time, our surplus with the rest of the world has been in the neighbourhood of \$1 billion. In short, to date you have outperformed us in our bilateral dealings. That is neither surprising nor unexpected. I do not believe this means however, that we should attempt to restrict U.S. sales to Canada. The answer, I firmly believe, which is in the best interests of the people of Canada as well as the United States, is for us to redouble our efforts to increase our exports to the world as a whole and to the United States in particular. I hope you are receptive to that line of reasoning.

The problems the United States faces are quite different. You earn a healthy surplus on current account each year - and a great portion of that surplus comes from your dealings with us. At the same time, your world role, including military commitments abroad and the structure of your economy, generates an outflow of capital in the form of investment as well as foreign aid. When this outflow exceeds your current-account surplus, as it has in recent years, you can and do finance this with United States currency. In so doing, the United States has performed the essential task of providing much of the liquidity required by the monetary system of an expanding world economy over the postwar period. Problems only arise when major creditors decide, wisely or not, to exercise their option to exchange reserve U.S. dollars for gold.

For some time now, the United States Government has taken steps to moderate the outflow of American capital. Recent instruments called into play have been the "interest-equalization tax" and the "guide-lines" to parent corporations with overseas branches, aimed at reducing this transfer of capital abroad and improving current-account earnings. When these measures were first introduced there was understandable and serious concern over their potential effect on the Canadian economy and our special relation. Applied to Canada, these measures could have done great harm to both our economies, and because of Canada's smaller size, the impact would most seriously be felt on our side of the border.

Fortunately for all concerned, consultation and co-operation between our two countries quickly led to the recognition of the fundamental fact that the outflow of capital from the U.S. to Canada is intimately and inseparably related to the trade surplus the U.S. presently enjoys. Canada was consequently exempted from the impact of the interest-equalization plan on new issues. And action was taken by both Governments to dispel some of the original concerns about the effect of the guide-lines in relation to corporate investment in Canada.

This brings me to a second consideration, the role of U.S. direct investment in the Canadian economy. This role is indeed substantial. Put in terms of the U.S. economy, it is as if non-residents had invested better than \$400 billion in your economy, more than \$250 billion of which took the form of direct ownership of U.S. corporations; it is as if the residents of one other nation held direct ownership of close to \$175 billion in U.S. companies. In such circumstances, you should wish to be very certain indeed that, in return for

the opportunity to have a share in the growth of a dynamic and politically stable nation, the owners of this capital were prepared to act as good corporate citizens of your country.

Here again, realism is the best guide to policy. We are fully aware of the positive role foreign capital has always played in Canada's economic development. It must continue to do so. And it will do so, I believe, if it conducts business on the same strictly economic basis it would at home, operating in strict accord with the laws of the country in which it is being utilized. The Canadian Government spelt out these principles in correspondence I had with all foreign-owned subsidiaries in Canada. I am pleased to say our "guiding principles of good corporate behaviour" met with wide acceptance from these companies themselves.

In essence, these principles emphasized the responsibility of all companies in Canada to develop their performances through the efficient use of its resources and the vigorous pursuit of available market opportunities in Canada and abroad. The response to these principles was gratifying. While there is room for a good deal of improvement, and while performance varies from company to company, by and large most American-owned firms have been conforming to most of these principles or are prepared to undertake changes in policy and practice to more closely accord with them in the future.

Let me turn now to one very important but often overlooked aspect of the Canadian-American economic relation: our common goals with respect to the world economic community. Too often we focus on our bilateral dealings without paying sufficient attention to the vitally-important shared objectives which guide so much of our conduct in the world arena of trade.

In company with the United States, Canada has been a strong supporter of freer world trade on a multilateral basis. The series of international trade negotiations held under the auspices of the GATT - capped by the recently-concluded Kennedy Round - have provided one of the best examples of international co-operation in the postwar period - co-operation which is of benefit to all trading countries. The agreement between Canada and the United States was one of the key elements in the Kennedy Round. It was a carefully-negotiated bargain which should help lower prices and production costs in both Canada and the United States.

I must say I am fully in accord with a statement made by Ambassador Roth, the President's Special Trade Representative, in a speech here in Cincinnati a month ago, when he said the Kennedy Round was "unquestionably the most successful trade agreement to emerge from the long series of negotiations that followed the Trade Agreements Act of 1934".

We in Canada look forward to increased opportunities for trade in both directions as the Kennedy Round results are implemented. For Canada, there are improved terms of access for our traditional exports, such as minerals and forest-products. But of even greater significance for our future development we see

greatly-improved opportunities for participating in the growing world markets for manufactured goods, a field in which in the past we have had only a small part. This is an area in which improved efficiencies and lowered trade barriers can make Canadian suppliers more competitive.

In terms of the future, I am convinced that the most productive course in improving trading opportunities is on a multilateral non-discriminatory basis. Each of our two countries must, and does, fit its relations with the other into a pattern of global needs and responsibilities. We have noted that President Johnson has asked that a detailed study be made of the entire range of issues that remain to be resolved in the field of international trade and of the policies which should be proposed to deal with them.

In Canada, we are also examining how best to move forward in this area. In the course of these exploratory and preparatory studies, we will be maintaining the closest contact with our principal trading partners, including of course, the United States. Clearly, however, the first order of business is to implement the Kennedy Round, to get the tariff reductions in place and to bring into force the international grains arrangement and anti-dumping codes that were an integral part of that agreement.

In the context of multilateral trading relations, Canada and the United States have already moved a long way. Before the Kennedy Round, about half our mutual trade moved on a duty-free basis, including that rapidly-expanding segment arising from the Canada-U.S. Automotive Agreement which provided for rationalization of the automotive industry on a continental basis. Two further sectors, lumber and fish, will be moving virtually to the same status when the Kennedy Round results are in place. Tariffs on much of the balance of our two-way trade will be reduced substantially. The stage is set for a significant further growth in Canada-U.S. trade to our mutual benefit.

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Gentlemen, when initially I was invited to address this gathering the suggested date was one year ago; your Council suggested as an appropriate topic the unbelievably ambitious plans we had for a world's fair called Expo 67. Perhaps today, just five days after the gates of that tremendously successful 1967 World Exhibition have closed on Man and His World I might be permitted a few words on that original subject.

We Canadians are enormously proud of that miniature world on display for six months on the man-made islands in the St. Lawrence River. Naturally, as the host country, we have at times tended to talk as if we thought of it as an exclusively Canadian accomplishment. But I think Canadians would readily agree that three key factors made Expo so brilliant an achievement.

The first was that man, not machines, was its subject, and his world was on display for the people from everywhere to come and view.

The second was that in presenting Expo, we Canadians came to take a great pride in the fact that working together as a united nation we were able to perform our duties as hosts of the greatest world exhibition ever held, in a manner that surprised even many of us.

The third and most important was that Expo was not created by, nor did Expo belong to, the people of any one nationality. People from all over the world, Americans in greater numbers than any other, came to pay Expo a total of better than 50 million visits during the fair's six-month run. And nations from all over the world (more than 60 in all including your own) made their essential contributions to the world in microcosm there in the St. Lawrence.

So above all, we recognized and valued the fact that Expo was a truly international fair, an international accomplishment, an indisputable proof of the benefits of international co-operation. We learned our lesson well and, with your help, would hope to apply it in the future even more than in the past to our life in the community of nations. Expo's real enduring value is that it has underlined that together, Canada and the United States with the other countries of the world, can move ahead toward a world of the future equal to our highest aspirations.

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