



Statements and Speeches

No. 79/6

THE ROLE OF GOVERNMENT IN PROMOTING AND PROTECTING THE INTEREST OF THE CANADIAN BUSINESS COMMUNITY IN THE CHANGING WORLD ECONOMIC ENVIRONMENT

Notes for Remarks by the Secretary of State for External Affairs, the Honourable Don Jamieson, to the Canadian Council of the International Chamber of Commerce, Montreal, March 5, 1979.

* * * *

You have asked me to speak to you at what I think is an important moment in the development of our common interests. In the 1980s, the international environment and the "mix" of issues that will confront us will be even more interdependent and complex than today. Our neighbourhood will be even more the world at large — no one country or group of countries will be able to afford to go it alone. It is important that Canadians, both in government and in business, recognize the changing realities in the international economic environment. Even more important, government and business should continue to co-operate and consult closely so as to take full advantage of the opportunities and avoid the pitfalls inherent in the changing international economic environment.

Let's look at what we can anticipate will be some of the main changes and forces at play in the 1980s and the role of Government in promoting and protecting the interests abroad of Canada's business community.

What are some of the changes I'm talking about? What will be the main elements of the international economic environment in the 1980s?

In the first place, there will be some straightforward changes in the facts of international economic life; some are readily apparent now, while others will emerge as the decade develops.

We shall be confronted by major new challenges in economic management. The phenomenal economic growth of the postwar period has ended. We now live in more difficult international and domestic circumstances. We shall, no doubt, continue to have to deal with reduced economic growth and the twin problems of inflation and unemployment, energy and resource shortages and the search for new sources, external pressures of payment imbalances, currency realignments, and serious readjustment problems in sensitive industry sectors. International events may have an even greater impact on our domestic policies. The variety of countries with which we shall have to do business — state-trading, newly-industrialized, market-economy, oil-rich, centrally-planned, middle-income — will present a formidable challenge to both Government and industry. We shall not readily forget the shock-wave occasioned by the 1973 oil-price crisis; in the 1980s, both Government and business will have to

remain alert both to the predictable problems I referred to above, and also to the less-predictable, such as the recent developments in Iran and Southeast Asia. The unrest and change in government that has occurred in Iran, for example, has had immediate effects on our oil supplies, on Canadian trade and investment interests there, and may have longer-term repercussions.

Despite more-straitened and more-complex circumstances in the 1980s, I believe Canada will need to be outward-looking if we are to take our place in the competitive environment of the 1980s. We must also continue our commitment to find ways and means that more fully meet the aspirations of the less-developed world. This will require a skilful blend of traditional and new policies – and close consultation between the public and private sectors.

A second changed circumstance we shall have to adjust to is the fact that the game will be played by different and more complex rules. The benefits of some of the new rules will be immediately apparent; others will take some time; yet others will be regarded by business with some misgiving. Common to all, however, is the fact that they will provide an atmosphere of greater certainty for the business community.

The most obvious new set of rules are those emerging from the Multilateral Trade Negotiations (MTN) in Geneva. These will bring about a more complete set of rules to govern international trade and should result in a freer and fairer trading environment. For example, the new non-tariff codes will provide Government with improved means to deal with unfair trade practices, while providing the business community with assurance that the game will be played by the same rules by our trading partners. The MTN are also intended to bring the most developed of the developing countries more effectively into the international economic framework, both in terms of the consultative process and the acceptance of GATT (General Agreement on Tariffs and Trade) rights and obligations.

In a variety of other forums, rules governing various other aspects of international economic behaviour are also being elaborated. For example:

- At the Law of the Sea Conference, rules are being developed governing deep-seabed mining and the 200-mile economic limit; the latter is already having an effect on our fishing industry.
- In Geneva, the UN Conference on Trade and Development (UNCTAD) is working on codes of conduct governing the transfer of technology, shipping and restrictive business practices.
- The UN is working on a code of conduct dealing with multinational enterprises.
- Work is progressing on the renegotiation of the Paris Convention on Industrial Property.

I am not suggesting for a moment that in each of these areas the new rules will have the full force of international law. Some will; others will be limited to moral suasion; others yet are still far from international agreement. All, however, will introduce greater certainty into the conduct of international business.

The third aspect of the changing circumstances I have in mind is the conduct of economic diplomacy in the 1980s.

In the postwar era, international economic policy has had a predominantly multilateral flavour, highlighted in recent years by the MTN and previous trade negotiations and the so-called "North-South dialogue". The importance of multilateral approaches to the management of international economic relations will remain. The MTN, for example, represent the most comprehensive and ambitious attempt yet, both as to coverage and the number of countries involved, to come to common agreement on how trade is to be conducted. Despite the broad scope of the expected agreement, however, much remains to be done. In the 1970s we may see a continuing series of conferences dealing with particular aspects of world trading rules. Other international economic institutions are taking on an increasingly active role – the Organization for Economic Co-operation and Development (OECD), the Food and Agriculture Organization (FAO), the United Nations Industrial Development Organization (UNIDO) and UNCTAD. The international economic environment will thus continue to be shaped in the 1980s by what governments decide to do collectively as a result of the continuous give-and-take of multilateral discussion and negotiation.

Less visible, but increasingly important, is the fact that the management and conduct of our bilateral economic relations are changing and call for increasingly close attention. They are now much more complex and sophisticated. The examples range from our relations with the United States, dominated by a complex network of corporate and other private-sector ties, to the framework agreements with the European Community and Japan, to the highly-formalized government-to-government agreements and consultative mechanisms that are a prerequisite to successful economic penetration of some of the developing and state-trading nations.

In recent years, particular emphasis has been placed upon developing mechanisms and consultative relations that better respond to the complexity of contemporary economic interests. This approach aims at co-operation across the economic spectrum: in the fields of production, research and development, energy, food-production, development of natural resources, as well as joint marketing arrangements and trade. As we move into the post-MTN period and face a global economic climate marked by modest growth and continued caution in effecting structural adjustment, the manner in which we use and develop both multilateral economic diplomacy and the growing network of bilateral ties will assume increasing importance.

The tools of the trade of economic diplomacy are also changing. Many people seem to see a good part of international relations today as a struggle between developed and developing countries, the former trying to keep as much of the pie as possible and the latter trying to get all they can. This is, of course, a somewhat simplistic view. In the first place, the North and the South are by no means homogeneous blocs. Within the developing world there are newly-industrializing countries such as Brazil, Korea and Singapore; there are the oil-rich but still very much developing countries: Nigeria, Saudi Arabia and Indonesia; and there are middle-income developing countries such as India, Algeria and Kenya. There continue to be the very poor countries;

and there are the state-trading countries of Eastern Europe and China. Each of these groups of countries, and for that matter each country within these groups, provides its own challenges. Each requires a different approach, depending in part upon the different "mix" of government and private enterprise it has.

Quite clearly, then, to take full advantage of the changing environment ahead dynamic and creative activity on the part of both the Government and the private sector will be needed.

Role of Government

How can we — Government and business — work together to ensure that your interests are reflected in what the Government is attempting to do internationally and to help you assume that your investment and commercial dealings take into account these changing realities?

Contacts between the Government and the Canadian business community are, of course, constant and extensive. For example, the Department of Industry, Trade and Commerce maintains its extensive daily contacts with the broad spectrum of Canadian industry, and has recently been very deeply involved with the private sector in the reports of the industrial-sector task forces, whose recommendations are currently under review by the Government. You will also be familiar with the direct assistance provided to Canadian businesses operating abroad by the Export Development Corporation and the Canadian Commercial Corporation. The latter is exploring new ways to assist private-sector activity abroad in response to the increasing global importance of large-scale projects. There have also been increasingly-direct consultations with representatives of Canadian industry on major international economic issues.

The Department of External Affairs also has its role to play. The traditional distinction between foreign policy and domestic policy implies a hard and fast dividing-line that no longer exists — if ever, it did. The increasing range and complexity of the economic issues we face require an "input" by the Department of the Government's policy-formulating process that goes beyond mere co-ordination in Ottawa and the simple representation of the Government's view abroad. It is our job to ensure that the range of Government policies, at home and abroad, reflects the changing international realities I earlier described.

Let me focus now for a few moments on what our multilateral and bilateral diplomatic efforts are intended to achieve for the business community.

With regard to our bilateral economic relations with the United States (by far our largest and most important trading partner), formal government arrangements have rarely been necessary; the links are geographical, cultural and corporate. Although neither country has been without its advocates of closer, more formal arrangements government-to-government contacts have for the most part not been "structured". The role of government is nonetheless extensive in a complex trade and economic relation where we try to manage and contain numerous minor difficulties and irritants on a day-to-day basis. However, because of the nature of the United States' marketing and business practices, and our ability to do business in that market largely without

Government assistance, formal arrangements for the most part have not been necessary; the Canada-U.S.A. Automotive Pact represents an exception, and one that has been of advantage.

This relation with the United States is, however, unique today and is matched in the past only by our old links with the United Kingdom, before the latter joined the Common Market. The rest of the world calls for a more active and direct governmental role. The most obvious example is our growing relation with the European Community, embodied in the framework agreement we signed in 1976.

The decision to negotiate the agreement was taken in the light of changing European realities and with a view to creating an environment in which the Canadian businessman could pursue interests in Europe in an atmosphere of co-operation. Essentially, the agreement is a partnership between Canada and the Community, involving both government and our respective private business communities, which goes beyond straight trade to encompass what has been called the "diplomacy of business". Since the signing of the agreement, we have concentrated on encouraging the development of closer intercorporate relations to match the strong political commitment of both sides. Five *ad hoc* working groups have been set up under the umbrella of the agreement — in forest products, telecommunications, aerospace, metals and minerals and nuclear equipment and services. Canadian businessmen — over 300 of them — have been actively involved in the work of these groups and in the seven missions that have been exchanged over the past two years. The next stage, about which I am optimistic, will be the translation of these exploratory activities into specific sales-licensing agreements and joint ventures by the private sector. The activities of the last two years show that the opportunities are there. Are we up to taking advantage of them?

A less-structured framework agreement was signed with Japan in late 1976. The first meeting of government officials within the Joint Economic Committee was held in June 1977, and the next is scheduled for later this month. It is far too early to make definitive assessments of the utility of this comprehensive framework approach; however, Canadian business appears to have responded well, as witnessed by the growing number of business missions to Japan and the first meeting of the Canada-Japan Businessmen's Conference in Tokyo last May. The second meeting is scheduled for Toronto in May.

Recently, in Kingston, Jamaica, I signed the Canada/CARICOM Trade and Economic Co-operation Agreement. The agreement is in fairly general terms and establishes a legal framework for our bilateral economic relations. Attached to it, however, is a detailed Protocol on Industrial Co-operation. The objective of the protocol is to involve governments and the private sector in industrial co-operation efforts that will be of benefit to both Canada and Commonwealth Caribbean countries. The protocol, based on the recognition that economic relations cannot be thought of in trade terms alone, attempts to provide a framework for action to encourage and facilitate investment, the transfer of technology and development assistance. The various elements of the protocol add up to a package peculiarly suited to our relations with Caribbean countries. Some of these elements would have to be changed to make the package

suitable to, for example, an African country. The Canada/CARICOM agreement does illustrate, however, the sort of comprehensive and pragmatic approach I foresee for the future, and it is this approach I commend to you.

A similarly-tailored approach to the specific needs of middle-income developing countries is our recently-adopted program of reimbursable technical co-operation. This involves assistance to a developing country in the technological and industrial fields. Such a program is launched when the country in question wishes to deal on a government-to-government basis to obtain Canadian goods and services either from the public or private sectors. It is organized and initially financed by the Canadian Government and costs are later recovered from the recipient. Such a program can be extremely valuable in stimulating projects that we otherwise might not see come to Canada and that themselves frequently produce "spineoffs" and other further opportunities the private sector in Canada can take advantage of. This technique like private-sector joint ventures, which Canadian firms increasingly favour, helps to ensure that we are not working at cross purposes with the social and economic policies of the host country and encourages the search generally for projects of mutual benefit.

The OECD has done some good work in assessing the impact of newly-industrializing countries — the South Koreans and Brazils — on Western economies. These studies have shown that, in any global sense, the competition these countries are now providing more than matched by the increased possibilities for doing trade with them. Another way of putting this is to say that our trade with these newly-industrializing countries is increasing much more rapidly than is our trade with those developing countries that have not yet begun to export manufactured and semi-manufactured goods.

OECD countries have recognized that the developed world should not habitually be in the position merely of responding reluctantly to each new demand by the developing world, but that in our own interests the developed countries should take some initiatives. You will all be aware of the 1976 OECD package of recommendations on international investment, which includes a set of guidelines for the behaviour of multinationals. It is not yet clear what practical effect these guidelines may have had. However, it is obvious that good corporate citizens tend to receive more-favourable treatment from host governments than do black sheep, and I think that multinational enterprises (MNEs) are beginning to realize it is in their own best interest — and mean financial interest — to observe some set of reasonable standards such as the OECD guidelines. I might add that, were MNEs more openly responsive to the OECD guidelines, it might make it easier to argue that the UN code of conduct for transnational corporations need not contain more restrictive provisions than those found in the guidelines.

I could offer other illustrations of where we are engaged in responding and adapting to the world's changing realities in terms of the needs of the developing world, such as in the context of the UN Conference on Science and Technology to be held this year in Vienna, or in our dealings with state-controlled economies or even the developing world. But time will not permit me to do so.

Conclusion

This brings me to what you and we should be doing together. The easy answer is more of the same. In fact, I think we must do more and do it better. In doing so, I think there are two principles we should keep firmly in mind. The first is that politicians and bureaucrats cannot do the real business. The private sector must remain the senior partner in the development of bilateral trade and economic relations. The second is that government does have a role. Our efforts are intended to support and facilitate; they are, of course, not limited to circumstances where constraints on market access or broader political considerations justify a formal government role; they should furthermore be sufficiently flexible to take account of changing circumstances.

To do so effectively, we must have the best possible understanding of what will be helpful — from door-opening to treaty-writing. Hence the need for frequent consultations. We have found the consultations carried out over the past year with the Canadian Business and Industry International Advisory Council, of which you are members, to be extremely useful. I recognize that it is not always easy for you and the other member organizations of CBIAC to speak to us with one voice, but I encourage you to continue your efforts in this regard.

We are trying to consult more often. We are trying to consult more on specific subjects. In recent months, agenda items for our meetings with CBIAC have included environmental-protection legislation, fair labour practices and commodity negotiations. We are also trying to consult more before policies are set by government.

It is particularly helpful when the business community is able to produce proposals and recommendations on specific subjects. A case in point is the Report on Extortion and Bribery in Business Transactions, adopted by the Council of the International Chamber of Commerce in November 1977. In that report, the ICC recommended that a treaty be drawn up to combat corrupt practices in international business transactions, and also outlined specific rules of conduct for business enterprises. This positive approach by the business community has provided an impetus to the efforts currently under way to draft an international agreement, and has also helped focus those efforts.

This is the kind of pragmatic approach demanded of us by our changing world. It not only pays dividends to you, it makes our job easier and permits us to be more effective. And that, I think, brings me back to where I came in. The world is no longer a simple place, if ever it was, and the need for mutual reinforcement is greater than ever. There are certain political realities to which we must respond; you are judged by the figure on the bottom line of your balance-sheet. Government has to take into account the factors that determine your bottom-line figure, and we wish to do so. By the same token, the business community must respond to the political and economic realities we face, and I am sure you wish to do so. I am optimistic by nature. I am confident that our continuing dialogue will prove invaluable.