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EXTÉRIEURES.

NOTES FOR AN ADDRESS BY THE
SECRETARY OF STATE FOR EXTERNAL AFFAIRS
THE HONOURABLE MITCHELL SHARP,
TO THE ANNUAL MEETING OF THE
CERTIFIED GENERAL ACCOUNTANTS'
ASSOCIATION, PARK PLAZA HOTEL,
TORONTO, OCTOBER 18, 1972

Mr. Chairman,

I am grateful for the invitation to speak to you this evening. You have left me free to choose my own subject. I intend to begin by making some general remarks about the Government's foreign policy. Then I should like to present some ideas about the most difficult and important aspect of all in Canada's external relations, that is, our relations with the United States. What I have to say on that subject will form the first extended public introduction to a basic foreign policy document I published yesterday. This document appeared in the form of an article in a special issue of the publication "International Perspectives", under the title "Canada-U.S. Relations: Options for the Future". I commend it to you as a serious analysis of issues important to all Canadians.

This is, as it should be, a time of intense debate over public issues. So far as domestic affairs are concerned, the parties have been slugging it out toe-to-toe for weeks. But in contrast to some previous elections, foreign policy has not been a focus of controversy.

One explanation for this is that the Government's foreign policy has broad support. This is something which naturally gives me great satisfaction. It means that the Government has successfully led the country in new directions in foreign policy, directions in which Canadians generally were ready and willing to go. The change of direction has not involved a violent break with the past; on the contrary it has been a constructive development from the past. And it has been accomplished with a minimum of fuss, so that it takes a bit of looking back to remind ourselves of just how much has changed in the past four years.

The starting point in 1968 was that foreign policy was due for a change. The world was changing; Canada was changing. It was time for a comprehensive look at what these changes amounted to and where we were headed. The Government, and Canadians at large, sensed that many landmarks in the world which had grown up after the Second World War were disappearing. The world of the fifties, of the Cold War, of military alliances was well on the way to a radical transformation. New centres of power and influence were arising. Meanwhile Canada, which had played such a vigorous part in constructing the postwar order, had itself become a different country: stronger, richer, more varied, seeking new forms of national expression. Canadians had looked at themselves during the Centennial Year of 1967 and marvelled at the change.

On another occasion, I tried to summarize the new point of view in these words: "Canada no longer sees itself primarily at the apex of the North Atlantic triangle, but as an Atlantic, a Pacific, an Arctic and above all, an American nation. This is bringing about changes in emphasis in our foreign policy. We are now looking at the world around as through the eyes of an independent North American state rather than as a member of the North Atlantic community. It is not a retreat into isolationism as some observers have suggested, rather it is an opening of new horizons. It is also a considered move towards a more independent position in foreign policy."

This considered move towards a more independent position in foreign policy led by way of a good deal of reflection to a number of important conclusions. The Government looked at Canadian membership in military alliances, when the era of military confrontation was obviously fading. We decided that our membership still stood us in good stead, although the form of Canada's contribution had to change with the times. This decision has permitted Canada to remain a full participant in the moves since 1968 toward a relaxation of tension in Europe. It will permit us next year to take part in bringing about conferences on co-operation and security in Europe, and on the mutual and balanced reduction of the opposing military forces in Europe which have symbolized the era of confrontation. These will be the first general negotiations affecting European security in more than a generation. Canada's basic interests are involved. We have earned our right to a voice in the outcome through our European role during the Second World War, and through faithful and constructive adherence to the North Atlantic Alliance since.

The Government looked also at our relations with the Soviet Union and China. These too were ripe for change, and important changes duly followed. In the case of the Soviet Union, the new mood was embodied in a Protocol on Consultations - an agreement to talk. This ensures that, however much we disagree, we go on talking regularly with the Soviet Union over the complete range of our shared interests. This dialogue is pursued to the highest levels, as when the Prime Minister visited the Soviet Union and Mr. Kosygin visited Canada. In the case of China, the change has been even more dramatic: after almost two years of negotiating, Canada recognized the People's Republic of China in 1970. We played a leading part in bringing Peking into the United Nations in the following year. As with the Soviet Union, we have created a framework within which we can talk steadily and seriously to a powerful country which otherwise, to our great cost, we might badly misunderstand. Furthermore, we have created new means for securing key Canadian interests - notably a permanent place for our wheat in China and the Soviet Union, now our two largest foreign grain markets. In the process of transforming our relations with China and the Soviet Union, we have done ourselves good and we have done the international community some good as well. Other countries - notably the United States - have followed much the same path since; Canada has not had to buy new friendships at the expense of old ones.

The review of foreign policy led to other changes as well: to increases in the quantity and improvements in the quality of Canadian assistance to the developing countries; to much closer Canadian involvement in the concerns and institutions of this hemisphere; to more vigorous expression of Canada's bilingual and multicultural nature abroad. And the Government conducted a unique experiment in communication, in order to identify the aims and themes of Canadian foreign policy, to explain its intentions, and to encourage public discussion. This experiment was launched with the publication of a summary of the foreign policy review, not in tomes for the reference shelf of a library, but in the form of a set of six pamphlets, each no more than 30 or 40 pages long. These pamphlets appeared in June, 1970, under the title "Foreign Policy for Canadians". Together with the article on Canada-U. S. Relations about which I now wish to speak, they constitute a comprehensive review of the main currents in Canadian foreign policy. They are designed to take the mystery out of a policy field that is often and

unnecessarily thought of as especially mysterious. In this, I think they succeed.

While five of the six pamphlets of "Foreign Policy for Canadians" were devoted to particular areas of foreign policy, no single pamphlet was devoted to Canada-U. S. A. relations as such. The problem of Canada-United States relations did, however, underlie much of the foreign policy review. Indeed, the review set out the problem in about as neat a formula as anyone is likely to find: how is Canada to live "distinct from but in harmony with the world's most powerful and dynamic nation, the United States"? This problem was identified as one of two inescapable realities, both crucial to Canada's continued existence; the other was national unity.

The foreign policy review identified the problem, and discussed a number of its important manifestations. But it did not attempt to draw all the strands together. There were good and obvious reasons for this. The relationship between Canada and the United States is massive and complex. By any number of familiar tests, it is unique in the world as a relationship between two sovereign states. The two countries share an entire continent. Each is the other's best customer. Trade between the two exceeds 20 billion dollars annually. Something like 70 million people cross the border in either direction every year. Yet the partners are notably unequal in size. The United States has ten times Canada's population. Its Gross National Product is more than ten times Canada's. Canadians invest more per capita in the United States than Americans do in Canada. But where Canadian ownership of the American economy is negligible, American investment in Canada results in 50% American control of our manufacturing industries, with much higher percentages in particular sectors. To an outsider, Canadian life in its superficial aspects is almost indistinguishable from life in the United States; only closer acquaintance reveals the differences. Most objects of mass choice and taste in both countries confirm to a single North American pattern, largely determined in the United States.

In short, as the article on Canada-U.S. relations observes, the relationship "is by far our most important external relationship, but it is more than an external relationship. It impinges on every aspect of the Canadian national interest, and thus of Canadian domestic concerns." We are simply not used to thinking of the parts of this unique international phenomenon in relation to the whole. Many might even question whether it makes much sense to try to put together all the pieces of so vast and complex a jig-saw puzzle. Yet Canadians have begun to worry increasingly about where the combination of economic and cultural pressures may be leading. This questioning became particularly intense with the announcement of President Nixon's new economic policy in August, 1971.

It is in this mood of questioning and examination that my article on Canada-U.S. relations was prepared. Its subject is the whole relationship; it tries to look on it from a single point of vantage. In an undertaking of this sort, it is hard to avoid confusing complication on the one hand and distorting simplicity on the other. The article, I hope, manages to avoid either pitfall. It 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 goes on to identify three options for the future. These options are fundamental to the paper. They are:

- (a) Canada can seek to maintain more or less its present position in relation to the United States with a minimum of policy adjustments;
- or (b) Canada can move deliberately towards closer integration with the United States;
- or (c) Canada can pursue a comprehensive long-term strategy to develop and strengthen the Canadian economy and other aspects of its national life and in the process to reduce the present Canadian vulnerability.

I cannot do full justice to the discussion of these options in the time you would permit me today. I will try, however, to give you a broad indication of how the argument develops.

The options are considered in the order I have given them. The first - maintaining the present position in relation to the United States with a minimum of adjustments - would involve pursuing the same general trade and industrial policy to which we are accustomed. There would continue to be a large degree of laissez-faire in our economic policy. The multilateral, most-favoured-nation approach would continue to rule in trade policy. We would go on trying to get better access to United States markets, and to maintain some form of special relationship with the United States. Industrial development would continue to be export-oriented to a considerable degree. Exports generally would still be dominated by commodities and semi-processed goods. No doubt we would continue trying to diversify our exports while avoiding so far as possible any greater degree of dependence on United States markets. We would try also to obtain more employment in Canada through a greater degree of processing of Canadian commodities. But this would be essentially a pragmatic option. We would deal with the issues as they arose, and not concern ourselves greatly about where the broad tendency of our policy was leading us, or whether the various parts of our policy were guided by a single sense of direction and purpose.

How well would this option work for us in practice? That would depend on the relative success we had in maintaining our position in United States and other markets. The costs of this option would vary accordingly. But suppose we take an optimistic view. Suppose the United States does not turn protectionist, and suppose an open world trading system brings Canada success in other markets as well. We might pursue this option for some time with apparent success. But the fact is that the continental pull has a momentum of its own. Therefore, there is a risk that, in pursuing this purely pragmatic course, we would be drawn more and more into the United States orbit. And remember, even this is on optimistic assumptions. In appearance, we would be following a policy intended at least to maintain, if not improve, our present relative position. But in fact, we might be falling behind.

The second option would be closer integration. This could mean many things. It could mean more arrangements like the Auto Pact, confined to particular industries. These arrangements, we know, have advantages. But they create difficulties too. They could put us at a bargaining disadvantage both with the United States and with other trading partners. We might come to the conclusion that something more extensive was necessary - a free-trade area, or even a customs union. Either of these would lock us permanently into arrangements with the United States which in themselves might appear to be to Canada's material advantage. But would they increase our independence?

In fact, were we to pursue this option, we might be forced to the conclusion that the only way we could compensate for the overwhelming economic power of our partner would be to opt at the same time for some form of political union. In this way, we would seek to obtain maximum direct influence over the economic decisions which affected us.

I have pursued the logic of this option to the point where its difficulties will be plain to you. It has undoubted attractions in material terms. There is a sort of parallel in it to the movement towards European unity. But the parallel breaks down on examination. There is a world of difference between the internal balance which can result from economic and political union of a number of European societies, which positively desire to overcome old enmities through union, and the internal balance which would result from the union of two North American societies, one of which is so immensely powerful that the other must struggle to maintain its distinctiveness. The Europeans can, if they wish, make a dish fit for a king. I am afraid all we could do in North America would be to bake a horse-and-rabbit pie, with one horse and one rabbit.

And all of this is without asking whether either Americans generally or Canadians generally would want union. I would not try to predict what the reaction might be in the United States. In Canada, I would expect almost any form of closer integration to arouse more opposition nowadays than proposals of this kind have in the past; and I would expect the opposition to come from all parts of the country.

The third option would be to decide that, over time, we would work to lessen the vulnerability of the Canadian economy to external shocks, especially those from the United States. Our purpose would be to re-cast the Canadian economy to make it more rational and more efficient as a basis for Canada's foreign trade. The basic nature of the economy would remain unchanged. The option would mean encouraging specialization, rationalization and the emergence of strong Canadian-controlled firms. Our domestic base, a prosperous nation of 22 millions, should be adequate to produce efficiency in all but the most complex and capital-intensive industries. We would still depend for a great deal of our national wealth on our success in exporting goods and services. But we would deliberately broaden the range of foreign markets in which we could successfully compete. We might also find that Canadian firms could provide a higher proportion of our domestic needs - not because we were deliberately trying to reduce our dependence on imports, but simply because they were the most competitive suppliers. There would be no question of retreating from our fundamentally liberal trading policies into protection, or of abandoning the most favoured nation principle in trade

agreements with the U.S. or other countries.

This option would require close co-operation of government, management and labour. It would require as well the close co-operation of all levels of government. Since the option involves a deliberate strategy, some degree of planning would be involved. But considering the wide range of government involvement in the economy already, I doubt whether this option would radically alter relations between government and business. Working out the required consensus between the federal government and the provinces would require close consultation, but I see no reason why this need lead to friction. On the contrary, the basic harmony of federal and provincial objectives in industrial development could widen the area of federal-provincial co-operation.

Much the same could be said of the cultural dimension. The kind of policy instruments required to support an independent and flourishing national culture already exists. What may be necessary is the extension of policies which have already proven their worth to sensitive new areas created by the age of mass communication.

These, then are the three options. Now that you know what they are, I can make some general comments on them.

First, options are not policies. They provide a framework within which policy decisions can be taken. They can give a basic orientation to policies. But they are not policies themselves. Within the limits of any one of these options, quite a wide range of different practical measures could be adopted. Depending on circumstances, quite different policy mixes could be consistent with the option in question. All the option gives you is the sense of direction in which you want to be heading.

Even this may over-state the case. There is a real difference between the first option on the one hand and the second and third on the other. The first is not really a strategy at all. It is reactive. It involves waiting on events. It means facing individual issues as they arise, and deciding these issues on their own merits, not in relation to some larger purpose. In this sense, it does not pretend to tell you where you are going. The second and third options, by contrast, involve choosing a goal, acting rather than reacting, and judging individual issues in relation to the goal chosen. In the case of the second option, the goal would be integration with the U.S. in some form; in the case of the third option, the goal would be an economy and culture less vulnerable to the continental pull.

All three options are of course abstractions. Like all abstractions, they tend to simplify complex matters. But the distinctions they draw between the various courses open to Canada are basically valid and useful. None of these options is a straw man, set up only for the sake of being knocked down. Nor is this a case of three alternatives, of which two are plainly unacceptable extremes and the third merely a compromise with no virtue other than the fact that it is a compromise. On the contrary, each option has a perfectly respectable argument that can be made for it. Each has to be thought through in its own right. And you will find that the article on Canada-U.S. relations tries to pursue the logic of each option

in a detached and dispassionate way; it gives a fair picture of the implications in all three cases.

The Government has given these options careful consideration. The published article on Canada-U.S. relations in fact represents the distillation of a number of discussions in the Cabinet and studies by officials. This process has been going on for the better part of a year. The Government's conclusion is quite clear: our choice is option three. We believe that option one, the pragmatic option, runs a serious risk over time of weakening Canada's relative position. We believe that option two, the option of integration, is unacceptable for a variety of reasons. In the Government's view, the best choice for Canada is option three: to pursue a comprehensive long-term strategy to strengthen the Canadian economy and other aspects of our national life and in the process to reduce the present Canadian vulnerability.

The third option, then, demands some additional comments. To begin, let me repeat: an option is not a policy; it only gives a sense of direction to policies. Some of these policies already exist. Others remain to be worked out in the mutually supporting fields of fiscal and monetary affairs; trade, competition and foreign ownership; science and culture. Under option three, we will have a permanent test for each policy instrument we devise: what will it do to strengthen our economy and reduce its vulnerability? And we will be compelled to examine each policy instrument in relation to the others, because each will be intended to support and reinforce the others. The proof of the pudding will be the kind of industrial strategy we pursue, the kind of energy policy we adopt, and so on. But the result will not be anything it would be sensible to call "Canada's United States policy". The emphasis of the third option is on Canada - on decisions that have to be taken in this country by Canadians - rather than matters to be negotiated with the United States. Deciding about option three means deciding what sort of Canada Canadians want to have. To borrow the language of the foreign policy review, it means ensuring our continued freedom to develop in our own way through a judicious use of Canadian Sovereignty.

Thus the option is in no way an anti-American option. It implies no hostility to the United States. It assumes continuing friendship. Its object is to lessen Canadian vulnerability over time. This means two things: that especially in an age of interdependence, it will be impossible to make Canada totally invulnerable to continental pressures and unrealistic even to try; and second, that whatever success we have will be achieved not overnight, but over time. So there will be no sudden break in the pattern of Canada's relationship with the United States. Nor even in the long run will the relationship cease to be unique in the world in its closeness and complexity. It is entirely consistent with this option that Canada and the United States will go on being each other's best customer by a wide margin. There may even be particular areas of our exports where the United States market will become relatively more important than is the case even today. But this will not be a factor of increased dependence; it will be a factor of the competitive success of export-oriented Canadian firms too well-established to create fears of increased Canadian vulnerability. The economic relationship between Canada and the United States will continue self-evidently to be a

special relationship in its scale and intimacy, but perhaps less so in the sense of demanding special arrangements to ensure that it functions well.

What in essence is the choice? It favours setting a goal - a less vulnerable economy and culture - and devising means to reach it, as opposed to waiting upon events in the faith that their natural course serves Canadian interests. It favours a stronger national economy and culture, more self-reliant, more open to creative development by Canadians according to their own wishes. It favours enlisting government, business and labour in a co-operative national venture in which all must share. It favours widening the basis for co-operation between the federal government and the provinces. It says yes to close and self-respecting friendship with the United States but no to integration, no to narrow economic nationalism but yes to a Canadian economy better equipped to bargain with the United States and with others. It is the choice of national purpose, of consciously taking our fate into our own hands. I am convinced that this is the right time to choose and the right choice.