



## STATEMENTS AND SPEECHES

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### CANADIAN-AMERICAN ECONOMIC RELATIONS

Speech by the Secretary of State for External Affairs, the Honourable Paul Martin, to the Economic Club of Detroit, September 21, 1964.

I am greatly honoured to have been invited to address this "good-neighbour" luncheon today. I am particularly honoured, in your roster of speakers, to follow your distinguished Secretary of State. Mr. Rusk is esteemed in Canada as a great public servant of your country and as a good and trusted friend of Canada. As he himself told you last week we had an opportunity, just before he spoke to you, of comparing notes about some of the international developments which are causing all of us concern. I think our meeting on that occasion was typical of the close and cordial consultations that go on at all times and at all levels between our two governments and that play such a vital part in keeping Canadian-American relations in good repair.

You have asked me to speak to you on the subject of our economic relations. To do justice to such a subject it is important, I think, that it should be set in a wider perspective. Canada and the United States between them share this great sub-continent of North America. We are joined - not separated - by what is commonly described as the longest undefended border anywhere on this globe. We are partners not only in the defence of our sub-continent but in NATO - that great alliance of free men which has played so notable a part in enabling us to defend our free societies and to maintain peace and security in the world at large. We exchange more goods and services than any other two countries. We share between us the custodianship of vast natural resources. We are coming more and more to realize that we must use these resources for the joint benefit of both our countries. The Columbia River Treaty, which came into effect last week, after some 20 years of consideration, planning and negotiations, is, I think, an impressive example of Canadian-American co-operation in that sphere. We are linked by common traditions of government based on the consent of the governed and on the rule of law. And we also share in a vast network of cross-currents of information and ideas.

## Problems Peculiar to Canada

This provides the general setting for our economic relations with you. But, of course, there are other factors to be taken into account if we are to try to arrive at a more sophisticated assessment of these relations. Our population in Canada is now some 19 million people. Your population is about ten times that size. With such a relatively small population, we are bound to face problems which do not trouble you. We are faced with the problem of geographical diffusion, which adds to our overhead costs. We are faced with the problem of producing goods and services on a scale that is adequate, in a modern industrial context, for achieving maximum efficiency. We are vastly more dependent than you are on the need to export the goods and services we produce. Above all, we cannot afford to leave out of account the enormous preponderance of the United States in the North American economy. Economic developments in our country are greatly influenced by developments in your own economy and we, like other countries, depend on the United States to follow international economic policies that will provide the right environment for our economic growth. It is against this background that I should like now to survey the present North American scene.

In common with most of the free world, North America is at this time experiencing conditions of vigorous economic activity. While there are still problems facing us, we are confident that these can be met and progressively overcome. I need hardly say that continuing economic expansion of your country has been a major element of strength in the larger world picture.

## Period of Sustained Expansion

Canadian experience in recent years has closely paralleled that of the United States. We are now well launched into a sustained period of economic expansion. We are confident that this expansion can be maintained, although it may not be possible to maintain it at as rapid a rate as at present. Based on the performance of the Canadian economy during the first half of the year, we expect 1964 to show an increase in our gross national product over 1963 appreciably greater than the 6½ per cent in dollar value which was achieved between 1962 and 1963. This tremendous expansion of incomes and employment in Canada has benefited nearly every sector of our population, whether in industry or in agriculture. And it has taken place in our country, as it has in yours, with relatively little increase in costs and prices.

We are particularly pleased that the rapid growth in our economy has brought about a decline in unemployment. This has dropped from just under 6 per cent in mid-1963 to less than 5 per cent in 1964. Indeed, in March of this year the level of unemployment was as low as 4.6 per cent, the lowest at any time since 1957. We are confident that further progress can be made in expanding work opportunities for Canadians. This is a prime objective of the Canadian Government. We are pleased with the progress that has been

made so far in dealing with this problem, but we do not think it affords us any ground for complacency. We are certainly not prepared to accept a 5 percent rate of unemployment as satisfactory over the longer term, and we are continuing our search for realistic policies designed to provide expanding opportunities for our expanding labour force.

### Balance-of-Payments Deficit

A recurring problem which has been facing us in Canada is the balance of our payments with the rest of the world. This is a problem our two countries share, although the Canadian position is substantially different from your own. For, whereas your difficulties have arisen in spite of a large current-account surplus, ours by contrast are due entirely to a large current-account deficit. In fact, this deficit is more than accounted for by our transactions with you. In the ten-year period 1952-1961, we were running a surplus with the rest of the world averaging just under \$300 million a year. Over the same period, our deficit with you averaged over \$1.3 billion a year. If we take this deficit and convert it into the relative terms of your own economy, this would be equivalent to a deficit for you of the order of \$20 billion a year.

Over the past two years, I am glad to say, we have managed to reduce our overall deficit. But the figure is still much too high for an economy the size of our own and, in particular, when account is taken of the fact that it has to be met by foreign borrowing. It is also significant, I think, that the improvement in our external balance to which I have referred has come about as a result of increased Canadian exports to other countries, principally Britain and Japan. We are hoping for further improvements this year as a result, in part, of our large sales of wheat to the Soviet Union and other Soviet-bloc countries. Though valuable and welcome, these are elements which cannot be relied upon to help solve our balance-of-payments problem over the longer term.

### Problems of Capital Inflow

I have referred to the fact that the very large deficits which Canada incurred in recent years have had to be offset by inflows of foreign capital. However much we welcome the participation of foreign capital in the development of the Canadian economy, we cannot, I think, shut our eyes to the difficulties which this very considerable volume of foreign borrowing has presented for us. It has, of course, added to our external debt. It has also tended to make our economy more vulnerable than we should like it to be to changes in inflows of foreign capital. For these and other reasons, we find it difficult to contemplate the indefinite continuance of a deficit of the order of magnitude of recent years. Because of the very crucial role which our deficit with the United States plays in this overall deficit, it is clearly in that sector that we must look for real and abiding solutions.

We recognize, of course, the vital importance to the United States of its own balance-of-payments problem. Perhaps, however, there are two comments that would be in order in this connection. First, while Canada is almost certainly the world's largest net debtor nation, the United States, by contrast, is the world's largest creditor. Against Canada's net international liabilities, which are in the neighbourhood of \$18 billion, the United States has net international assets in excess of \$40 billion and these are growing year by year.

The second comment I should like to make is that Canada has been a source not of weakness but of strength to the United States balance of payments. In the ten-year period 1952-1961, our cumulative deficits with you have amounted to \$13.5 billion, of which only about \$7.5 billion has been covered by borrowing from you. Your overall payments surplus with Canada over that period has, therefore, amounted to some \$6 billion.

#### Industrial Specialization Sought

In seeking a better balance in our trade with you, we are naturally anxious that this should come about through export expansion rather than import restriction. We are convinced that this is the best interest of both our countries. We also believe that it is in the interest of both our countries, particularly in sectors where trade between us is the predominant factor, to develop increased industrial specialization consistent with a rational use of our economic resources. This is of particular importance to Canada because of the limited size of our domestic market, to which I have already referred and which makes it impossible to secure the long production runs and other economies of scale that are necessary to efficient industrial operation. This problem is particularly acute, as I am sure any Detroit audience will appreciate, in the circumstances in which the Canadian automobile industry has developed.

This industry, which consists almost entirely of subsidiaries of United States firms, follows a pattern of production similar to that of their parent companies, even though the Canadian market is less than one-twelfth that of the United States in size. We are convinced of the desirability of much greater rationalization of production between our two countries to permit the Canadian industry to concentrate on the production of those items which can be manufactured most efficiently in Canada. This clearly means increased production and more jobs in both countries and an expansion of trade in both directions.

At present the Canadian automobile market accounts for between 6 and 7 per cent of the total North American market, but only 4 per cent of combined production is located in Canada. In absolute terms, the value of our automotive exports to the United States last year amounted to \$36 million - which represented a threefold increase over the previous year - but our imports from you were valued at almost \$600 million. The objective of the Canadian Government is to bring the trade in automobile parts and components into somewhat better balance. This is not an unreasonable objective.

### Lowering Barriers to Trade

I have spoken to you about the Canadian economy and about Canadian-American economic relations. I do not think it would be right for me, however, to conclude this speech without saying at least a word about our joint endeavours to bring down the barriers to world trade and to assist those nations which will continue, for some time to come, to rely on international co-operation for improvements in their standards of living.

Through the initiative of your late President, the trading nations of the free world are about to engage in a new round of trade and tariff negotiations - the "Kennedy round" - under the auspices of the General Agreement on Tariffs and Trade to secure substantial reductions in industrial and agricultural tariffs. The "Kennedy round" also aims at the removal or reduction of non-tariff barriers to trade that have grown up over the years and many of which are contrary to the obligations we have all assumed under GATT. I wish to say, on behalf of the Canadian Government, that we support the objectives of these negotiations; that we plan to participate fully in them; that we see this as a major opportunity of freeing both industrial and agricultural trade; and that we are ready to pay in good coin for the benefits which we hope these negotiations will yield for Canada as for other trading countries.

### Development Aid

The other economic problem with which Canada and the United States are actively concerned is that of the less-developed countries. Of course, this is not simply an economic problem but one which has and will continue to have a fundamental bearing on the stability and security of the world in which we live. I think we have all recognized in our domestic arrangements that, as the Commissioner General of the French economic plan once put it, "fairness demands that in certain cases some should receive more than the share due to them under the laws of the market and that others should receive less". I am sure we are approaching the time when we shall also recognize the validity of this notion as applied on the international plane. We are already channelling a growing volume of assistance to the less-developed countries, and I am glad to be able to say that we in Canada have recently been able to announce a 50 percent increase in our foreign-aid programme, which now amounts to just under \$200 million a year.

But, however important foreign aid is and will remain in underpinning the economic development plans of the less-developed countries, there is no doubt that, in the longer term, these countries must also be enabled to earn more of their resources for development from trade. To see how this could best be done was the purpose of the recent United Nations Conference on Trade and Development. In carrying forward the work of that conference, I am confident that the United States and Canada will continue to play a constructive part. For I see the problem of under-development as one of the major problems that we shall have to face over the next decade or two.

Last week your Secretary of State spoke to you on the theme of freedom. He spoke of the continuing contest between freedom and coercion in which we are all involved. And he spoke with confidence of the outcome of that contest because of "the commitment of ordinary men and women around the globe" to the cause of freedom. I believe that we, on this North American continent, have particular reason to put our faith in the cause of freedom. For those who have preceded us - explorers, pioneers, settlers and founding fathers - were deeply imbued with that faith. They came in search of freedom and determined to perpetuate it in free societies. We, as their heirs, have a special responsibility to carry forward their legacy; to further the cause of freedom in its widest meaning; and to apply our great resources to the service of that greater freedom within which alone man can attain the full measure of his endowment.

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