



Minister for  
International Trade

Ministre du  
Commerce extérieur

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# STATEMENT DISCOURS

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Notes for an Address by the  
Honourable James Kelleher,  
Minister for International Trade,  
at Dunning Hall, Queen's University

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Canada

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It is a great honour for me to be here today. When I went to Queen's — I was in the class of Arts '53 — I always sat where you're sitting now, and I don't think it ever occurred to me that one day I'd be up here, on the business end — instead of the receiving end — of a lecture.

But I confess I'm not entirely comfortable up here. You know, there's a difference between a scholar and a cabinet minister. A scholar, as I'm sure you've heard, learns more and more about less and less — to the point of knowing everything about nothing. A cabinet minister is probably just the reverse. I sometimes think I learn less and less about more and more, to the point of knowing nothing about everything.

So I ask you to bear with me.

What I would like to do today is to try to put my portfolio, International Trade, in the context of the world that you are going to have to live in. And when I say you, I mean the young men and women of your generation, the people who are going to be around for awhile — so that some of you will undoubtedly end up on this side of the podium.

Projecting trade into the future implies some conjecture, of course, for nobody knows what's coming down. But, on the basis of what's happening now — and barring unforetellable calamity or unexpected bonanza — it's possible to pick out some of the important trends and carry them to fairly reasonable conclusions.

Notice the qualifiers. "Some of the important trends." "Fairly reasonable conclusions." As every economist knows, you're never going to get all the trends. And as every motion picture producer knows, you're usually

in trouble the moment you start projecting.

I have one more caveat, and then we're off. These days, mankind is really living in two worlds, not one. The world that often seems most apparent is the world of newspaper headlines and 30-second TV clips. This is the world of slogans and clichés, of black and white, of good guys and bad guys, all plainly marked. I guess you could call it Walt Disney's view of life.

Which is fine, except that the problems it presents are simplified to the point of distortion, and the solutions it suggests are instantly attainable.

Would that the real world worked that way. Unfortunately, it does not. In the workaday world, problems are complex, solutions are slow — perhaps even painful and usually imperfect — and everything is always changing.

Politicians have to spend much of their lives in Disney World. We live or die on headlines and TV clips. Indeed, there is some danger that Mickey Mouse will one day blot out the real world, overwhelm it and take its place. But if the day ever comes that fundamental policy decisions are based on the collected wisdom of Elmer Fudd, the game will be over.

There's always a problem, of course, in defining the real world. It's the old existential problem: truth, like beauty, is in the eyes of the beholder, and no beholder has 20-20 vision. But if truth is illusory, at least there can be a recognition by those who seek it that it is illusory. And that is at least honest.

One of those seekers of truth was Marshall McLuhan, who saw that the

world was shrinking, that it was becoming a "global village." Let's start with that thought.

The global village is rapidly coming to pass. The world is becoming more interdependent by the day, its economies more intertwined. This is arguably to the benefit of all, and it has certainly been of value to Canada.

Trade is not a zero sum activity. Everybody gains by it. It produces wealth. It is the principal fuel of growth. In our case, exports have multiplied tenfold in the past four decades and imports have gone up almost as much. During the same four decades, our national wealth — the Gross National Product — more than tripled, and our productive labour force more than doubled.

We now export a third of what we produce and import three-tenths of what we consume. What we are doing, in other words, is trading on a grand scale. Auto parts from Ontario for oranges from Orlando. Coal from B.C. for cameras from Japan. Cod from the Grand Banks for Jamaican rum. Gas from the West for oil for the East. Plus lumber for coffee, airplanes for water skis, telecommunications equipment for VCRs, and so forth. Basically, the formula is simple: things we produce cheaply or well for things we don't. That's why trade works. And as it enriches our lives, it provides a great many jobs. Well over three million Canadians are in jobs that depend directly on trade.

But the question is how many jobs will there be in the year 2000 and beyond, the years you will be at your earnings peak? Will there be more jobs, and better jobs, in an economy strong and on the rise? Or will there be fewer jobs, more menial jobs, in an economy on the skids? To a great extent, the answer depends on decisions that Canada must make now.

The decisions are complicated to some extent by a perverse current in international trade — perverse in the quite literal sense that it runs counter to the Global Village stream. This is the current of protectionism, and it gains its strength from many sources — from the tide of hungry new competitors that have been popping up around the world, from the fact that the world's largest economy has a massive and chronic trade deficit, and from the fact (this being the real world) that everything keeps changing.

The changes are taking place in the marketplace, in what people want to buy. They are fundamental changes, indeed. The bottom has dropped out of commodity markets. Oil is on a roller-coaster, up and down, up and down. The international market for grain is not what it used to be. Resource-based economies are in trouble. High technology is sweeping the world.

In the U.S. alone, the information technology industry now brings in as much revenue as the auto industry. Worldwide, it will be the biggest manufacturing industry by the end of the decade. At least four countries are well on the way to producing a computer that will approximate the human brain.

Artificial intelligence is the sexiest thing going right now in the world of technology. And yet, it may come as some relief to know that the Future of "A.I." (as it's known in the trade) is still very far from clear. Some say computers will think like humans in five years, some say it will take 30 years, some say they never will. At the moment, A.I. is being developed to perform specific tasks on specific projects — an extension of automation — rather than as a great brain that can think like us.

They're hot on artificial intelligence in California, though. In the

silicon Valley, they're already thinking beyond it. They've got seminars going on The Post-Information Economy.

In any case, with automation and technology moving so quickly, the accent in the near future will be — surprising as it may sound — on flexibility, on the ability to adapt. The age of the super-specialist is over, for the time being at least. In a way, we're re-inventing the Renaissance Man.

It has been said that revolutions devour their own children. That's precisely what's happening in the hi tech revolution. Overspecialization has been overtaken by the technology it created, a technology that is changing so fast that no specialist can keep up with it. Let me give you an example. The highest tech workers in high tech are designers of computer chips. At a rough estimate, there are only 5,000 of them in the world, and they are very well paid. But not for long. In five years they're obsolete. Then they have to go back to school to catch up again, if they can. And they'll have to keep doing this every five years or so, or go into another line of work.

The explosion of demands for constant learning is having an effect on traditional universities, by the way. They, too, will have to adapt to the technology revolution and everything that it implies. For example, para-universities are now moving into the U.S. industrial structure. The Hughes aircraft company, now owned by General Motors, runs the largest graduate school in Southern California — bigger than UCLA or USC. Hughes U is used (how's that for alliteration?) entirely to keep Hughes' own engineers current. Which means they won't be going back to universities.

Why not? One answer that suggests itself is that some universities, at

least, have failed to keep up to the needs of the times. Their programs are perceived as being inflexible. They're also — and you're not going to like this — closed too much of the year.

This is too much to cope with all at once, but we can at least try to tackle it piece by piece. The key is flexibility, and what the Federal Government is trying to do is to help make Canada more flexible, to put Canada in a position to face the challenge of change. To us, this means opening up our economy, to make it more competitive at home and abroad, more attractive to productive investment at home and abroad.

This involves some basic decisions on trade. We have determined that the only real alternative is to go ahead and try to open up our trade. And we are proceeding to do so, on two main fronts — bilaterally with the United States and multilaterally under the General Agreement on Tariffs and Trade, otherwise known as the GATT. There are, of course, two other options we could have chosen — indeed, that some Canadians would urge us to choose. We could elect to go on just as we have been going, which is basically doing nothing. Or we could slip backwards into protectionism, hiding inside Fortress Canada, and let the world pass us by.

In this regard, two distinguished Canadian economists, your own Richard Lipsey and Murray Smith, have produced a series of scenarios in their recent book, Canada's Trade Options. "If Canada continues with the status quo," they say, "there are several strong possibilities for the shape of the economy in the year 2000." None of them are particularly inviting.

Let me read you some of the scenarios, according to Lipsey and Smith.

First scenario (and I quote): "A major section of the economy could be specialized in providing high-labor-content, 'down market' goods that compete with the products of whatever countries are newly industrializing at the time. Canadians will then either have to accept the relatively low standards of living that flow from the production of those goods or they will have to allow those industries to pay high wages by shielding them from foreign competition. In the latter case, the living standards of Canadians who buy high-cost, locally produced goods and whose taxes pay subsidies and low-interest loans will be lowered."

Second scenario (and again I quote): "Canada could well become a backwater: an inward-looking country that has turned its back on foreign trade by trying to encourage domestic production in order to reduce the importance of trade to the economy. This scenario is reminiscent of the Argentine experience. In the late 1920s, Argentina had a resource-based economy that was similar in many ways to that of Canada. The two countries had almost the same level of per capita real income. Argentina then chose an inward-looking policy based on protectionism and subsidization of local manufacturing. Since 1925, Argentina's real GNP per capita has grown by 65% while Canada's has grown by 265%."

Third scenario: "Canada could experience a serious balance of payments problem, which it could be forced to 'solve' with exchange controls that greatly restrict the ability of Canadians to buy what they want, to travel where they want, and to invest their money where they want."

Fourth scenario: "Canada could have a severe case of the economic disease currently called 'Eurosclerosis'. Some of the characteristics of this disease are high unemployment, low rates of return on capital, low levels of investment, a rising tide of

protectionism — because of a lack of confidence in the ability to compete internationally — and a series of subsidies, supports and other policies that greatly reduce the economy's real income and its capacity to adapt to change."

Don't go away, there's one more scenario, and here it is: "Canada could find its living standards so low relative to those in the United States that subsidies to Canadian cultural activities would be dismissed as overly expensive luxuries, and people would begin to ask if the economic cost of a politically independent Canada was just too high."

I'll get back to that point in a moment.

What must Canada do to be economically successful in the year 2000? According to Lipsey and Smith, "it will have to specialize industrially in 'up-market' product lines that provide high values added, and so yield high living standards. This means that Canadian industry must not specialize in products that depend on a high content of low-paid labor. These products can only survive in open international competition if labor costs are low. For a small country such as Canada, achieving efficient levels of output requires specialization and rationalization."

And that means flexibility.

But we have a long way to go. We spent most of the seventies and part of the eighties procrastinating about our economy. Putting off hard decisions only made things worse. Our competitiveness eroded. We were reluctant to invest in research and development. Our share of world trade declined. In 1968, for example, Canada ranked fourth among the world's trading nations, just ahead of Japan. We've now dropped to eighth and Japan exports twice as much as we do.

There's no road-map that will tell us which way to go at every cross-roads, but the general direction seems clear enough. So what's holding us up? I think Pogo, the late Walt Kelly's swamp possum, may have put it best: "I have met the enemy, and he is us."

Our hesitation seems to spring from deep in the Canadian psyche. Our hangup, as usual, is the Americans.

Opening up our trade with the world necessarily involves opening up our trade with the United States — since 80 percent of our trade is with the United States. And that brings all the old spectres out of all the old closets.

The fear of being taken over by the U.S. has dominated the thinking of some Canadians for so long that it brings on a conditioned response to any initiative that might improve or expand our relations, even our business relations. The current response runs like this: that a trade agreement with the States will be the first inevitable step to oblivion, that the next step will be a customs union, followed by a common market, followed by political integration. Goodbye, Canada.

But these are the fears of a minority. They are a hangover from the past, when Canada was less sure of itself as a nation and Canadians less sure of themselves as a people.

I think it's fair to say that most Canadians today find nothing inherently pernicious about the prospect of conducting bilateral trade negotiations with the United States. That's what the polls indicate, at any rate. The polls also show something else: that younger Canadians are more in favour of freer trade with the States than are older Canadians. Indeed, the generation that is most for it — by a ratio of more than two to one, accord-

ing to the latest CROP poll — is your generation: people between the ages of 18 and 29.

Why is that? I'd like to suggest two possible reasons. First, that your generation feels more comfortable with being Canadian, more secure. And second, that you have some very real concerns about the prospects of finding rewarding employment down the road.

One of Britain's most thoughtful magazines, *The Economist*, is sympathetic to those concerns. Listen to what it wrote in a recent report on Canada: "There is every reason to be confident that greater exposure to worldwide economic and cultural forces would continue to enrich Canadians and their distinctive, though definitely North American, way of life. There is equally good cause to fear that the steady improvement in living standards which Canadians are used to will continue to slow down unless the country opens up its economy further."

But let's go back for a moment to the issue of Canadian sovereignty. Sovereignty comes in two forms, political and cultural. Our political sovereignty is not at stake in our trade talks with the Americans. We don't want to become Americans — and they don't want us to. As for our cultural sovereignty, I think you're aware of what Canada's position will be at the negotiating table. If you're not, the Americans certainly are. Our position is this: Our cultural sovereignty is not negotiable. Our social programs are not negotiable. They are our business, and nobody else's.

Let me take this thought a bit further. In this country, our cultural sovereignty and social programs depend on our capacity to sustain economic growth, and that is directly linked to our ability to trade. Only a strong economy can guarantee the cultural in-

stitutions that give us our unique Canadian identity. Only a strong economy will allow us to support our health care, our unemployment insurance programs, our regional equalization payments. If our economy were weak, our social programs would surely suffer and our cultural sovereignty would be less resilient. It is hard to maintain your pride when you have your hat in your hand.

There is nothing new or unusual in this. We have, in large measure, become what we are today as a result of more than 50 years of negotiating agreements that have expanded our trade throughout the world. One after another, these agreements have given us the means to grow and prosper, and our prosperity has allowed us to support and foster our vibrant cultural community. It has helped us build social institutions and programs that truly reflect Canadian values and attitudes.

So the question is not how our cultural sovereignty and social institutions can survive freer trade with the Americans. The question is how they could survive if our trade were restricted.

I might mention that there is plenty of historic precedent for a bilateral trade agreement between us. Five decades ago, the world was in the midst of the Great Depression, and trade wars had broken out to make things worse. Canada and the U.S. were the first to react to the rampant protectionism of the times. In 1935, we signed a bilateral agreement to bring the barriers down, and its principles became the foundation for the multilateral trading system we have today.

I don't believe it would be going too far to say that a new bilateral

agreement between us might yield somewhat similar results. A new round of multilateral trade negotiations under the GATT is expected to begin in the fall, supported wholeheartedly by Canada. Negotiations for this eighth round will take many years. They will not be easy, for not all the world's trading nations are agreed on what they should cover. If Canada and the United States could lead the way, if we could show the rest of the world that trade liberalization is to everyone's advantage, I believe it likely that the multilateral negotiations would yield better results -- that more barriers would come down faster throughout the world.

And that's what my message today is all about. It is a message of surviving and prospering in the real world, the world of rapid and fundamental transition, the world where it's tough out there and getting tougher. It's the world that you are going to be living in, working in, competing in for the next five decades or so -- until the year 2030 and beyond.

Where will your place in it be? That depends partly on you, without any doubt. But it also depends partly on us, on the decisions we must make today, in the fading years of the twentieth century.

In reality, we have only one choice. We cannot afford to close our doors, draw the blinds, and look inward at ourselves. Our future lies in opening up, straightening up, and looking outward -- with confidence -- at the world. That's what we intend to do. Here comes Canada. Look out, world.

Thank you.