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NOTES FOR A STATEMENT BY
THE SECRETARY OF STATE
FOR EXTERNAL AFFAIRS,
THE HONOURABLE MITCHELL SHARP,
AT THE CANADIAN BUSINESS
OUTLOOK CONFERENCE, VANCOUVER,
MAY 11, 1972

I am grateful for the invitation to address the first Business Outlook Conference to be organized by the Conference Board in Western Canada. Your meeting is both well-timed and well-placed: well-timed, because we have met to consider the prospects for the Canadian economy in the coming year, and there could hardly be a better time to do so than Budget week. And well-placed because -- as the Prime Minister would be the first to admit -- Vancouver is a city of irresistible attractions. Apart from that, this outward-looking centre of communications and commerce can serve us as a reminder of the broad international setting in which Canada's economic prospects must be viewed.

I know from your programme what an impressive and distinguished group of discussion leaders have been brought together for this Conference. In one way or another, their contributions will range over many of the major problems of the domestic economy, the outlook for Canada's principal trading partners, and some aspects of the general international setting. It is under this last heading that you would expect me to make my contribution. I intend to do so by offering some reflections on the sort of world in which Canada must now live, work and trade. I shall try to describe some of the situations and trends to which we must accommodate ourselves, speaking briefly about relations with the Third World and the communist world, and at greater length about relations with our principal trading partners -- above all, of course the United States. And I shall try to relate the domestic to the foreign scene by showing how the Government is pursuing national goals and objectives in the international context.

In the first decade after the war, a new international order emerged. In the second, this order achieved a certain familiarity and stability. But just when we had become accustomed to it, the changes which had been working below the surface all the time began to manifest themselves. In the last three or four years, we have become aware of just how profound these changes are. We realize, when we speak of "the Seventies" in international affairs, that we are talking of something which, if less than a concept, is more than a slogan.

The changes which have now emerged will be familiar to you. They include the transformation of the Cold War relationship, the re-emergence of China upon the world scene, the evolution of a reconstructed Western Europe into a new focus of political and economic strength on a world scale, the dramatic confirmation of Japanese economic strength, and the consolidation in independence of the emerging Third World. Twenty years ago, we were justified in thinking that we lived in a bi-polar world. International politics then were dominated by the United States and the Soviet Union. The military alliances led by the two super-powers confronted each other across Europe and Asia. China was in the earliest stages of communist power, Western Europe and Japan barely launched upon reconstruction, and much of the developing world still under some form of colonial-rule.

Now we are conscious of living in a multi-polar world. The United States and the Soviet Union are still super-powers, of course. Obviously, they are Great Powers in a sense that China, Japan and Western Europe are not and may indeed never become. But they are super-powers with a difference: more aware of the limitations of their power than they were ten and twenty years ago. They are working to adjust relations between themselves -- above all, the nuclear relationship which lies at the heart of their power status. And they are obliged increasingly to share the stage with other power centres in the world whose influence upon events is growing.

For a country like Canada -- an outward-looking developed Western country with a positive view of its international responsibilities -- this emerging world order presents both opportunities and problems. It presents opportunities to diversify the nation's political and economic relationships in ways that strengthen national unity and reduce excessive dependence upon the United States. Canadians have shown themselves to be loyal allies. They continue to be. But I doubt if Canadians were ever entirely comfortable in a world in which policy was so dominated by military considerations as the one from which we are now emerging. They will feel more at ease now that they have more international elbow-room. They will want to continue to break new ground in developing relations with the Soviet Union and China. They will derive satisfaction from increasing participation in the progress of the developing countries.

At the same time, Canadians will want to use their new-found elbow-room to come to grips with the problems of the new international context -- above all, with the problem of how to avoid isolation in a world increasingly divided into trading blocs. As the Minister of Finance has made plain, the Government intends to stimulate the development of an industrial economy which is at once job-creating and internationally competitive. This is the priority domestic task. Abroad, we will have to work to create the sort of international circumstances in which such an economy can flourish. The Government has already indicated its firm support for the new round of international trade negotiations the United States has proposed. The Budget speech drew attention also to the contribution that will be expected of us in adapting international monetary mechanisms as well. And we will have to attack the particular problems that our relations with our different trading partners now present. To these I would now like to turn.

Take the easiest first: Canada's relations with the developing world. The idea that Canada should make a constructive contribution to the economic progress of the Third World through trade and aid has always found ready acceptance among Canadians. In our bilateral relations with the developing countries, we had to start from scratch. In Asia, these relations are only a quarter of a century old; in Africa and elsewhere, only a decade. I was the first Canadian Foreign Minister to visit Black Africa,

and that was only a little over a year ago. Against all the advantages of starting with no colonial past, we have had all the disadvantages of inexperience.

In the past quarter century, the Government's interests in the Third World have continued to increase rapidly. Our aid programmes are evidence of this. Aid appropriations are now close to half a billion dollars a year. They will continue to grow with the growth in GNP. During the last fiscal year, we reached a level of 0.44% of GNP for official aid against a target of 0.70%. Just last week, Canada became a member of the Inter-American Development Bank. This involved a major new commitment to multilateral aid which will total \$100 million in the next three years.

We have a clear objective, and have now developed the basic means of reaching it. The problems of the coming years will be ones of refinement. We're in danger of being stretched too thin. We want to be sure our aid has the maximum development impact. We want to see to it that the needs of the developing countries are matched to Canadian skills and resources in the best way we know how. Parenthetically, I might add that Canadian businessmen have not been as alert to take advantage of opportunities in this area as they should have been. It is questions of this sort which will be concerning the Government. While they are important, it will be clear to you that they imply no change in the general trend of our policy.

Trade problems have perhaps presented greater difficulties in our relations with the developing world. Here again, however, the Government's objective is clear, reasonably satisfactory means have been found, and there is unlikely to be any departure from the trend of policy, which is to create wider and more stable markets in the developed world for the produce of the Third World. Thus Canada will continue to support the various commodity agreements for tropical products. To this, the Government will add -- as the Minister of Finance re-affirmed in the Budget speech -- legislation to permit the extension of a general preferential tariff on imports from developing countries.

In response to the needs of the developing world, therefore, the Government's response is more aid, more effective aid, and improved access to Canadian markets.

Our response to the evolution of the communist world has been forthcoming also, although in different ways. There has been a rapid and dramatic change in Canada's relations both with the Soviet Union and with China in the past two years. Both on the Canadian side and on the side of the communist countries, there have been factors working for better relations. And the pace of change has no doubt been accelerated by rivalry between the Soviet Union and China.

So far as Canada is concerned, the effort to escape from the sterilities of the Cold War goes back many years, to the period in the fifties after Stalin's death, when it seemed that a different sort of relationship with the Soviet Union might be possible. This period brought our first trade agreement with the Soviet Union, but it took years of carefully increased contacts before the exchange of visits between Mr. Trudeau and Mr. Kosygin finally became possible. We had to work and wait for the Soviet Union itself -- driven no doubt partly by tension with China, partly by need for Western technology -- to arrive at the point where it was prepared to contemplate self-confident and more relaxed relations with the Western world, including Canada. In this sense, what some critics misunderstood last year as an unwelcome departure in Canadian policy was in fact the reward for a long period of prudent but imaginative effort. And it is interesting to see how the United States, with so many more complications to overcome, has been moving to place its relations with the Soviet Union on a similar basis.

So too with China. Our recognition of Peking a year and a half ago was another victory for an idea whose time had come. Again, there was a long and tortuous prelude of negotiation before success was achieved. Initial success led logically on to the debate in the United Nations over Chinese membership. There, Canadian action was a key factor in opening the way for Peking to take the China seat in the Security Council and the General Assembly. And again, United States policy has since shown itself responsive to the same logic.

There could hardly be a better illustration of the Government's desire to diversify Canada's foreign relations than these changes in our relations with the Soviet Union and China. They have had an immediate effect on our trade relations with both countries. Canada's position, established earlier, as the first foreign source to which the Soviet Union looks to meet its wheat needs, has been confirmed. Now through six commissions established under the Scientific and Technological Exchanges Agreement, Canada and the Soviet Union are working to expand trade in industrial goods. With China, a rather similar development is taking place. Negotiations to establish a commercial air service between Canada and China will begin shortly. In August, an exclusively Canadian trade fair will open in Peking, matched by Chinese participation in the Canadian National Exhibition in Toronto and "Man and His World" in Montreal.

The prospect is thus for an expanding and better-balanced trade with both the Soviet Union and China. But on the most hopeful analysis, I would not expect this to be more than a useful element of diversification. I would not expect the sort of transforming effect on our trade patterns that the opening of the Russian and Chinese markets had on our grain trade. The two trading systems are more open to one another than ever before. But we still have a long way to go before we can sell with uniform success in the Chinese and Soviet markets. The Chinese and the

Russians will have corresponding difficulty selling in ours. Whatever success governments may have in smoothing the way for expanded trade, the fact remains that these huge markets -- China especially -- will remain relatively poor. We can and will welcome expanded trade with them for its own sake. We can and will welcome expanded trade as an element in the general civilizing of East-West relations. Such improvements alone repay the work that has gone into transforming these relationships. But we cannot for the foreseeable future expect the present balance of our total trading relations to be much altered in consequence.

Obviously, the key trading relationships for Canada, in the future as in the past, will continue to be those within the developed industrialized world of Western Europe, Japan and North America.

To a country bent upon diversifying its markets, the new Europe which is emerging as a result of the enlargement of the EEC offers prospects of the first importance. The ten countries of the enlarged Common Market form the world's largest trading unit. Their total imports were valued at over 70 billion dollars last year. Getting on for three billions of these imports came from Canada. The EEC countries last year took 17% of our total exports, making the EEC our second largest trading partner by a wide margin. Yet despite its obvious importance, this is not a market in which Canada has been doing as well as it should. Our share of the market has in fact declined, and our exports have tended to continue to follow the older pattern of primary goods. We have been less successful with our manufactures. Why this should be so is a bit of a mystery. Part of the answer may lie in Canada's industrial structure, industrial habits and industrial policy. The tax concessions announced by the Minister of Finance are plainly relevant to the solution of this sort of problem.

The Government can also help by pursuing its efforts to strengthen Canadian ties with the EEC. Until recently, the Community was too absorbed in sorting out its internal problems to have much energy left to reflect on how it would relate to countries outside. Leaders of opinion within the Community were too preoccupied to make some distinctions that were important to us here. It has taken persistent effort to persuade them that analysis that treats North America more or less as an economic entity is quite insufficient. It will take continued persistent effort to ensure that the Community remains outward-looking, and that the Community's success in enlarging itself is not bought at the price of excessive readjustment for Canada.

On these matters, I am, however, hopeful. We have succeeded in persuading the Community to look at its future relationship with Canada in its own right. With others, I think we can succeed also in ensuring that the Community does not become protectionist. But when we have done so, the task of

exploiting the trading opportunities offered by the new Europe will still remain. At which point we say, "over to the private sector".

Our relationship with Japan offers similar scope for expansion and diversification. Japan will continue to be both Canada's largest market in Asia and Asia's largest exporter to Canada. It is the content rather than the volume of trade that remains a problem. As in the Western European market, Canada remains too much a supplier of raw materials and foodstuffs, too little a supplier of semi- and fully-manufactured goods, while Japanese exports to Canada have been almost entirely finished goods. Our long-term objective will be, with the assistance of Canadian exporters, to change the rather unsatisfactory traditional content of our trade within a framework of a general expansion. My colleague Jean-Luc Pepin, the Minister of Industry, Trade and Commerce, has recently had a notable success in promoting this objective. Recent Japanese moves towards trade and monetary policies appropriate to Japan's industrial status and prosperity are in the right direction.

Finally, above all, most important of all and most difficult of all, is our relationship with the United States. At several points in this address, I have pointed out how closely perceptions in the United States of the changing nature of the world's power structure have paralleled perceptions in Canada. I have also pointed out how much it is to Canada's advantage in a multi-polar world to have greater international elbow-room. To some extent, we owe it to the United States that we have this greater elbow-room; the United States has in effect created it for Canada and other countries by adopting a less ambitious concept of its world rôle. Canada and the United States have recognized, at much the same time and in rather the same way, the shift to the multi-polar world. Sharing a similar world view, we ought, one would think, to move easily with the Americans in the new environment.

Furthermore, we have some impressive recent evidence that President Nixon has reflected deeply on relations between the United States and Canada, and that he understands us pretty well. Last month, when he was in Ottawa, he said it was time for both countries to recognize:

- " -- that we have very separate identities;
- that we have significant differences;
- and that nobody's interests are furthered when these realities are obscured".

And he had some equally perceptive things to say, you may recall, about particular issues like foreign ownership.

Why is it, then, that relations between Canada and the United States seem to have been so bedevilled in the past year? In part, I think, the bedevilment is an illusion. In all sorts of old ways, and in some important new ones, the relationship has had a good year, appearances notwithstanding. For example, President Nixon and Prime Minister Trudeau signed the Great Lakes Water Quality Control Agreement during the President's visit to Ottawa. This Agreement establishes a new framework of co-operation between the two countries. It creates a magnificent opportunity to restore the harm two neighbouring industrial societies have done to one of their most precious shared assets. I would like to think that the fresh and imaginative approach to a shared problem is representative of the relationship at its best. And yet all this was worked out over the past year or so, when many were complaining that the relationship was at its worst.

If we are honest with ourselves, we will recognize also that a good deal that gets attributed in Canada to bad relations with the United States on examination turns out to be a purely Canadian problem. I must tread warily here, for I am dealing in intangibles. But it does seem to me that a part at least of the emotional steam which is generated over what are unquestionably valid problems -- like how best to organize the automobile industry in North America, or how best to admit development capital to Canada -- is attributable, not to the problems themselves, but to the burden of struggling endlessly in each new generation to create a successful relationship between two partners of such unequal size. The burden leads to frustration, and the frustration to anger; and the anger tends to vent itself on whatever current difficulties we may be experiencing, whether they deserve the outburst or not.

Please don't misunderstand me. I am not trying to say that problems don't exist -- that it is all in our minds. I think there is an element that is in our minds. But the problems undoubtedly exist too. Whatever else did we expect? You are fully conscious, I know, of the basic elements of the relationship. Total trade between Canada and the United States exceeds \$20 billion annually. Each country is the other's best customer. Yet the United States is ten times larger than Canada in population and more than that in GNP. Per capita, Canadian investment in the United States exceeds United States investment in Canada. But United States investment in Canada results in very high percentages of United States control in key sectors of the Canadian economy. Canada is obliged to struggle with all the problems created by foreign ownership of its economy on such a massive scale. For the United States, there is of course, no comparable phenomenon today -- although historically, as President Nixon recognized when he spoke to Parliament -- the United States has experience of the problem.

While our approach to foreign investment in general and American investment in particular is and will remain a positive one, Canada is now in a position where Canadians can afford to be more selective about the terms on which foreign capital enters Canada.

It is in the light of this determination that the Government's new policy on foreign takeovers of existing Canadian business enterprises should be understood. Canada is a growing country that needs a capital inflow if its full potential is to be developed. The need is dispersed throughout the country and is felt more strongly in the Atlantic provinces and the Eastern half of the Province of Quebec. As a result, there is no national consensus on the terms on which foreign capital should enter Canada. Therefore, the new legislation when it is passed will not hinder the free flow of capital into capital-hungry areas and capital-hungry industries. It may impede the takeover of existing, viable Canadian enterprises.

About 17% of the net annual capital inflow to Canada is used to purchase going concerns rather than to develop new industries or new units in existing industries. This kind of capital inflow may or may not be in the Canadian interest. The intention of the new legislation is to see to it that it is.

For instance, if the net effect of an American takeover is to export research and development from Canada to the United States, replace Canadian management with American management and take the enterprise out of the export market Canada is the loser, and such a takeover would almost certainly be prevented by the new legislation. It is important to note, however, that the procedure under the new act is to be one of review and assessment, and I hope that in the vast majority of cases a process of negotiation would result in approval of the takeover on terms which respond to Canadian interests and priorities.

No reasonable person could suggest that the proposed legislation is xenophobic or even unduly restrictive. But we are determined that foreign interests will no longer be free to buy up Canadian enterprises with a view to closing them down and substituting imports for their production or reducing their rôle as exporters in world markets, closing down research facilities or otherwise reducing them to branch-plant status.

In discussing foreign ownership, I have tried to point out how the problem is rooted in the economic relationship between the two countries. I have suggested that Canadians can now afford to be more selective about the terms on which they admit foreign capital into the country for the purpose of taking over Canadian enterprises. When the time and the circumstances were right, Governments in the past have acted with similar discrimination -- to protect sensitive sectors like broadcasting, banking and newspapers, for example. I look upon all such measures, including the present one, as part of a continuum. So deep-rooted a problem is not going to go away. It is not going to be solved through the miraculous application of some one shot cure-all. What makes

sense as a refinement or development of policy will change with time. A cool appraisal of the national interest will always serve us well on this sort of issue; strident nationalism never.

The current trade differences between the United States and Canada should be viewed in the same spirit, I suggest.

What is involved is not a confrontation between two opposing philosophies of trade. What is involved is not primarily a disagreement as to objectives. There is even a wide measure of agreement as to the facts. The points at issue are matters that concern in the main the working of an agreement relating to automotive trade which goes to the root of the unique economic relationship between our two countries.

This is why the differences are difficult to resolve. We are dealing with the operation of multi-national companies owned in the United States and producing in both the United States and Canada and supplying the North American Market. How are these operations to be carried on in the most efficient manner with the fewest constraints to trade to the advantage of both countries? How is production -- and thus employment opportunity -- to be divided so that each of us will have his fair share?

These are the questions we have been trying to answer for many months, long before August 15 when the New Economic Policy of the United States was announced.

It is an important question but it does not involve a fundamental difference of principle in trade policy between Canada and the United States. It would indeed be ludicrous if there should be a serious rift in relations because of the difficulty in reaching agreement about the future of the automotive agreement which has been so beneficial to both sides.

Such a rift would be all the more regrettable when the Government has made plain that Canada understands and sympathizes with the United States Administration in its desire to correct certain fundamental imbalances in international monetary and trade relations. Canada made its contribution to the correction of some of these imbalances, for example, by floating the Canadian dollar and by advancing tariff reductions under the Kennedy Round many months before the United States announced its New Economic Policy. The Government was prepared to go further. It made an offer to the United States Government. Each side has agreed to review its position with a view to re-opening negotiations, although so far as the Government is concerned, it has no apology to make for its earlier offer -- a fair one which the United States rejected.

These renewed negotiations between Canada and the United States will be only a part of the search for further liberalization

of international trade, a search in which Canada would wish to see all of the world's trading nations engaged, even as they seek to protect their own essential economic interests.

In this endeavour, the whole trading world will be looking to the United States for responsible and effective leadership. Recent statements by President Nixon suggest that longer-term United States economic interests call for the pursuit of the objectives of freer international trade and capital investment and for an orderly and effective international trading and monetary system, reformed and adapted to the new international situation.

And this suggests that the United States, far from turning inward, is reasserting its leadership responsibilities and charting a course for future trade liberalization that serves its own interests and those of all trading nations. In the pursuit of such policies the United States can be assured of Canadian support.