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CANADA'S ROLE IN THE WORLD TRADING ECONOMY

An Address by the Minister of Finance, the Honourable E.J. Benson, Vancouver, November 16, 1970.

I should like to make some comments tonight on Canada's role in the international economy.... As you well know, there are far-reaching changes now taking place in the world economy and in the policies of the great trading countries that make it particularly important for us to think out clearly where we are going. For these reasons, you may have a special interest in hearing some views from the Government's side about the place Canada should seek to occupy in this evolving world economy.

Possibly the best way for me to open up this complex subject -- and I don't propose to do much more than to open the subject -- is to comment on several important developments and to try to draw some tentative conclusions about what these developments mean for Canadian policy. What I have to say is perhaps rather artificial and misleading because all these factors are operating together, and it is their impact together which we must assess in evolving Canadian policy. Let me say what I want to say under four headings, as a way of coming to grips with these issues.

First, we have to look hard at the changing structure of demand for Canadian products in world markets. Second, we have to look at the critical role of manufacturing in the Canadian economy and the growing need to take proper account of economies of scale and the scope for specialization on an international basis. Third, we need to assess the impact on Canada's future trade of regionalism and more particularly the possible development of a tariff-free zone in Europe stretching from the Baltic to the Mediterranean and including Britain inside its tariff and trade policy wall. Fourth, we need to assess the impact of protectionist sentiment in the United States, both on our immediate trade prospects and on the longer-run prospects for any movement towards a freer trading world.

Let us look first then at the changing structure of demand for Canadian goods. As I stated in the House recently, our exports have been a most dynamic force in the economy this year. The latest figures, for September, show some decline from the very high plateau achieved earlier in the year, but

exports continue to run well above the figures for the last quarter of 1969. Our sales to countries other than the United States have been the most buoyant over the nine-month period. Indeed, on a seasonally-adjusted basis, sales to other countries are higher by 14 per cent over last year.

Clearly, one of the most important facts about Canada in the 1970s and 1980s will be the increasing demand from our neighbours on three sides -- the United States, Western Europe and Japan -- for industrial materials and energy supplies. A decade ago, very few people foresaw that we should be making long-term contracts for coal to be shipped to Japan, and require a new harbour to service these contracts -- developments of particular interest to you -- or that we should be considering the economics and the ecology of a pipeline from the Mackenzie Delta to southern markets. Nor did many people take into account the prospect of an energy shortage in the United States and the impact that would have on the demand for Canadian oil and gas.

Of course, there are contrary developments. For example, there are the restrictions imposed by the United States on our oil and uranium. Then, too, there is the decision of the British Government, under its regional development arrangements, to induce several large aluminum companies, including a Canadian one, to develop aluminum production facilities in the United Kingdom rather than to continue to purchase a growing volume of aluminum from Canada. Obviously this will have some impact on our sales to Britain, and it is all the more important that, in the negotiations looking to British accession to the European Economic Community, our British friends seek the removal of the common external tariff on this product.

Nonetheless, I think that there will be a growing demand for our raw materials and energy sources. I also think that in the 1970s the development and export of Canadian resource materials and energy supplies will be one of the driving forces in the Canadian economy. It seems to me we are justified in meeting these demands as long as we are assured of a fair price and as long as we reserve ample supplies to meet our own needs.

It is within this context of competition for our resources that we shall have to assess the changing role of manufacturing in the Canadian economy. I know that it is rather trite to draw attention to the growth in secondary manufactures and fully-manufactured products in Canadian production and exports. It may be trite as well to emphasize again that we need more manufacturing in Canada to provide the necessary number of jobs for our growing labour force, which is expanding more quickly than that of any other industrial nation. These jobs are not going to be provided by the highly capital-intensive extractive industries.

But the nature and scope for the manufacturing sector in the trade of a country such as Canada must be carefully assessed. Let me mention a number of factors which we in government will be examining more carefully as we develop new policies for the 1970s and 1980s.

First -- and this is not in any order of importance -- there is the difficulty that continues to confront Canada from the growing economies of scale resulting from the steady development of new technologies. For a

number of manufactured products, such as basic petrochemicals, only the markets of the United States, the EEC, Japan and the U.S.S.R. are large enough to support production at optimum levels. There are other products for which even these markets are not large enough, the most obvious example being large jet aircraft.

For Canada, with our small domestic market, this problem of scale manifests itself in various ways. Even for those products for which the Canadian market (plus available export outlets) could provide the scope for possibly two or three plants, there is often excessive diversification of production within each plant. This is typically the problem of our primary textile industry and of our consumer-goods industries. We simply cannot expect to produce a wide range of such goods as cheaply in a modern and efficient Canadian plant as in an equivalent plant in Japan or the United States. Our small market does not give rise to the demand for the long runs that are necessary to operate our plants at their lowest unit costs.

There are various answers or combinations of answers to this problem of over-diversification. One has been the answer which successive Canadian Governments have given since 1935 -- that is, to negotiate better terms of access for our products in foreign markets and to eliminate the excessive tariff protection given Canadian producers. Two notable examples of this are the program of tariff reductions negotiated under the Kennedy Round and the Canada-United States arrangements on automotive products.

A second answer is to use our resources and skills to make those products for which there are few economies of scale. I suppose that is why we have seen such a significant growth in exports of garments to the United States, to take another example from the textiles sector. In this area it is design and quality of production rather than scale which are relevant.

A third response, and one that all too frequently we have been unable to avoid in the past, is to simply put up with higher costs to Canadians -- by imposing restrictions on trade -- in order to try to create the jobs which Canadians need.

You will see, I am sure, how considerations of this kind bear on the possibility of maintaining and developing viable Canadian industries in a number of different fields. The nature of the problem may be illustrated by reference to the chemical industry, where the economic advantages of optimum-scale production now make quite unattractive the operation of many existing plants or the construction of new facilities designed solely for the Canadian market. And yet it is not an attractive prospect for us to export our raw materials, our petroleum and natural gas, and import the sophisticated products of the large-scale petrochemical industries of the United States, Japan and Europe.

It is indicative of the approach that we have adopted in an effort to resolve this kind of dilemma that my colleague Mr. Pepin, the Minister of Industry, Trade and Commerce, and his officials have been working closely with representatives of the industry to develop detailed proposals for a feasible chemical industry policy that will not result in imposition of higher costs on

Canadians. Chemicals are too important a part of our industrial cost structure for that to be feasible. Indeed, in the chemical tariff negotiated during the Kennedy Round and enacted by Parliament, this Government has clearly opted for a policy of only moderate protection for this industry. To put it more bluntly, we have clearly rejected the more protectionist policies which chemical companies affiliated with those in Canada have often managed to secure in other countries. That means, then, that if we are to have a substantial chemical industry in Canada -- and I have in mind particularly the prospects of developing a healthy petrochemical industry -- we shall have to have access on a reasonable basis to the markets of other countries for those products, which, given the advantages of location and access to materials, can be efficiently produced in Canada.

The alternative policies are ones that, personally, I find quite unattractive. One is simply to export raw materials and import finished products. That is the sort of policy which Canadians rejected 100 years ago. The second is to seek some sort of special preferential arrangement with some other larger market. Such a policy, of course, would conflict with our traditional multilateralism -- which I am sure is in the broad national interest, and would certainly have implications going beyond commercial policy. Furthermore, there is no disposition on the part of any such larger market to offer any special arrangement for Canadian products. Alternatively, we could embark on a policy of high protection for certain selected sectors of our economy. This, I think, would be unacceptable to Canadians if only for the reason that it imposes intolerable costs on those other Canadians that have no choice but to compete with their products in world markets. These are the sort of considerations which must be kept in mind as we try to evolve sound and workable commercial policies.

Let me revert to the more general subject of the role of manufacturing in our economy. I have several points to make. The first is merely to observe that, while the growth in exports of manufactured goods has been substantial, these exports often depend in some measure on various forms of special assistance by government, or the operation of certain non-commercial factors. Manufactured exports have, for example, particularly benefited from the facilities of the Export Development Corporation (and its predecessor, the Export Credit Insurance Corporation). There are, too, the special provisions of the Canada-United States Defence Production Sharing Arrangement under which a rough balance over time is required between purchases and sales and under which Canadian defence goods enter the United States duty-free. Manufacturing exports also reflect the fact that many less-developed countries frequently want our aid in the form of our most advanced capital equipment and that our aid program has been growing. Manufactured exports also benefit from the substantial tariff preferences which remain in Commonwealth countries such as Britain and Australia. And then, too, there are the exports under the Automotive Products Agreement. When you take these factors together, it is clear that a significant portion, perhaps more than a third, of our exports of more advanced manufactured products in the last few years have been exported with the help of certain special facilities or arrangements.

Secondly, I should like to observe that we must now give more careful scrutiny to the growing competition in the Canadian market from imports which may be subsidized or dumped or are artificially competitive in some other way.

- You will realize governments are always under pressure to react to competitive imports by erecting some special barriers; we need to equip ourselves to look very carefully into such requests so that we don't react when there is no unfair competition, and that we are well-informed and can act when there really is damage to Canadian producers.

Accordingly, we have introduced a bill now before the Senate to enable us to use one of the existing investigative bodies -- the Anti-dumping Tribunal -- to enquire into cases of alleged injury from imports which, though not dumped, are said to be unfairly competitive. Parliament is being asked to broaden the Tribunal's scope for such enquiries.

I might also refer to the growing concern at the extent to which other highly industrial countries are apparently using various forms of subsidized credit to increase their export of capital goods to Canada. Our manufacturers should be expected to compete with the producers of other countries, but not with their national treasuries.

We consider that there have been some imports recently that looked remarkably like credit-dumping. Accordingly, we propose to bring such credit-dumping within the ambit of the Anti-Dumping Act; like any other kind of dumping which injures our producers, it is proper for us -- under the GATT -- to act against it. This will, I am advised, require some changes in the very detailed regulations that have been made under the Act, and these are now being considered on an urgent basis by the specialists within my Department.

And finally, let me reiterate the obvious on the subject of productivity in the manufacturing sector. There are now limited possibilities for productivity improvements in some of the service industries which are now such important employers in Canada. Clearly, if Canadians expect to realize the higher incomes they want in the next few decades, they must look primarily to the manufacturing sector. The rate of productivity growth is the only source from which we can gain improvements in our standard of living. Over the past 20 years, the average increase in output per man for the economy as a whole, exclusive of the government sector, has been $2\frac{1}{2}$ per cent *per annum*. But for manufacturing alone it has been 3.4 per cent *per annum*. This means that for the economy as a whole, including governments, it is unrealistic to think of an annual improvement in our standard of living in excess of 2 to 3 per cent. This is a fact to which governments, as well as individuals, should accommodate themselves.

The third matter I want to discuss is the impact on our prospects of economic regionalism, and particularly the possibility of the EEC being enlarged. Clearly, the postwar policy of negotiating reductions to trade barriers, negotiating on a multilateral basis under the leadership of the United States, has lost some of its momentum. In Western Europe, the drive is not towards such multilateral efforts but rather towards the creation of a great free-trading zone covering most of Western Europe.

These developments, if they do come to pass, will create problems of adjustment for Canada. If Britain joins the Common Market on the basis of the present common external tariff and the present common agricultural policy, the terms of access for Canadian exports to Britain will be greatly changed.

Only about a third of our exports to Britain will continue to enter free of duty. Our industrial exports to Britain will face the common tariff, the margins of tariff preferences will disappear, and the competitive products of other countries will enjoy free entry. Agricultural exports will encounter an additional range of problems; not only shall we lose our margins of tariff preference but we shall be faced with the adoption by the British of the common agricultural policy, which involves levies on imports and other restrictions on trade.

...Britain is our most important customer for Douglas fir plywood and canned salmon; sales of these products to Britain amounted to \$30 million and \$21 million respectively in 1969. At present these products enter the United Kingdom free of duty and Canada benefits from a tariff preference against non-EFTA suppliers. The preference against the U.S.S.R. is particularly important in the case of plywood. Should Britain adopt the Community tariff for canned salmon and plywood, however, Canadian exports of these products would become dutiable, would lose their preferential tariff treatment *vis-à-vis* other countries and would face reverse preferences in favour of Common Market countries. On the other hand, our exports of lumber, which do not now receive a tariff preference in the United Kingdom, would continue to enjoy free entry under the Community tariff. Many of Canada's exports to Britain represent important "inputs" to British industry; in such cases, of which plywood is an example, it would be in Britain's own interest to secure continued duty-free entry for Canadian products. Canadian ministers and officials will continue to consult with the British negotiators on such matters of common interest as the so-called enlargement negotiations proceed.

As I have made clear, we are still at the negotiating stage. As the results become clearer and the effect on Canadian producers easier to measure, we shall have to assess the overall effect of the changes in British policy. The results will certainly have implications for the balance of our obligations to Britain under the General Agreement on Tariffs and Trade, as well as under our various bilateral trade agreements, but it is too early to state what changes will be required in British preferential access to the Canadian market. The general picture would be significantly altered, and for the better, if prior to the definitive arrangements for British entry coming into effect the trading nations of the world undertook a broad trade negotiation to achieve a further general reduction in barriers to trade. Such a negotiation could, at one and the same time, carry forward the process of trade liberalization and reduce the need for adjustments which might otherwise become necessary as a result of the enlargement of the Community. Clearly, any such negotiation requires the strong support of the United States Administration.

In saying all this, I do, of course, recognize that an economically strong Western Europe will be a growing market for a wide range of Canadian products, and there is no reason to believe that, in the long term, the broad direction of Western Europe's trade policies -- aside from agricultural policies -- will be protectionist. Indeed, in the postwar period, the direction of trade policy in Europe has been away from highly restrictive policies and towards somewhat greater freedom of trade. It is our view, therefore, that some of the immediate problems of adjustment for Canadian producers can and should be eased by arrangements for some of our more important exports and that such arrangements could benefit Europe as well as Canada.

These developments in Europe clearly call for new and meaningful initiatives by the United States. Only if the United States is prepared to give some constructive leadership can we launch a multilateral attempt to ease some of the potential problems of adjustment. It seems to me, therefore, that the emerging threat of protectionist policies in the United States should give us serious concern. The proposals before Congress are not all bad, but some are mere protectionism -- for example, the measure contemplated on textiles and footwear. Like many outside the United States, I do not see the need for such a belligerent attack on imports into the United States of these products.

While it is a good thing that the Congress may contemplate allowing the President to scrap the American Selling Price Valuation system, it is not encouraging that it is only now at the end of 1970 that this seems in prospect. The abandonment of this particular form of protectionism was undertaken by United States representatives in the Kennedy Round and there were important tariff reductions offered in return; the failure to carry through this arrangement has undermined all the attempts by the United States since that time to exercise any leadership in commercial policy.

Let us turn now to suggesting what these various developments mean for Canadian economic policy, and more specifically for our trade policy. I have commented on the growing demand for Canadian materials and energy sources and I have drawn attention to the importance of developing the manufacturing sector of our economy in order to provide jobs and to raise productivity. I have noted the growing pressure to take account of the economies of scale and thus of the need of specialization. I have commented too on the impact on Canada of economic regionalism and of protectionism in other countries. What sort of policies are appropriate for Canada in this complex of circumstances?

First, I don't think that any of this calls for reversing Canada's policy of the last few decades of seeking better terms of access for particular Canadian products, and at the same time reducing excessive and costly protection here in Canada. Rather, it calls for a refinement of this policy and for a greater effort by the Government to apply it effectively. You will all be aware that, parallel with this policy of negotiating tariffs, we have been developing a complex of measures on the expenditure side -- of industrial development incentives and regional development grants. It seems to me that this positive expenditure policy must be co-ordinated with the more traditional trade and tariff policies so that we are certain that we are encouraging the production of the right products for our markets at home and abroad. Clearly, in all those sectors of manufacturing where technology dictates economies of scale beyond the scope of the Canadian market, it is most important to identify the particular products in which Canadian producers have a comparative advantage and for which there is some prospect of our negotiating access to some larger market. Such a selective strategy of industrial development is vital for a country of Canada's size.

It should also be clear how vital is the attitude of the United States in developing such an industrial and commercial policy for Canada. If the United States moves in a protectionist direction, with a resulting reluctance to lower barriers on imports from Canada (except on those raw materials and the energy which the United States must have), then our prospects for identifying

and then establishing efficient production of particular manufactured products would be rather remote.

This might mean that we should be forced back into more of a "go-it-alone" policy -- and this, of course, would be a costly policy. This would mean, as it always has, that the costs of protectionism in this large and powerful neighbour would have been exported to Canada -- and, of course, to those other countries which trade with the United States. But the effect would be felt most of all by Canada because we are the United States' most important trading partner. Clearly, one of the most important features of Canada's trade policy is its assumption that the United States will continue to move in the right direction -- toward freer trade. Of course, it is encouraging to see the growth in our raw-material exports to Japan and to Western Europe. But in the longer term, if we are to seek out and develop a sophisticated manufacturing economy, making a few products well and exporting them to world markets, we shall have to rely on a liberal policy being maintained by the United States.

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