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CANADA AND THE UNITED STATES

An Address by the Secretary of State for External Affairs, the Honourable Mitchell Sharp, to the American Management Association, New York, February 3, 1972.

...The shock-waves set off by President Nixon's new economic policy announced last August have diminished in severity. The world has been able to adjust to them, at least for the time being. A calculated act of confrontation has brought about a needed realignment in world currency values, a realignment that benefits the United States and Canada equally, since, as world traders with a free-floating dollar, we shared with you the disadvantages inherent in the undervaluation of some other world currencies. The monetary system now functions more efficiently; it is the trading system that remains in doubt. Wherever you look in the world today, you see signs of protectionism and other forms of economic nationalism.

Your own country is no exception. The 10 percent surcharge was a gamble that paid off, and it was relinquished when its short-term objectives were reached. But just last week your Congress passed into law the so-called DISC legislation, described by your Government as a taxation measure but universally recognized as a device to discourage American investment abroad and to give an added advantage to American exports in foreign markets. The Foreign Trade and Investment Act, usually known as the Hartke-Burke Bill, now before Congress would impose quotas on a wide range of imports. I am very glad to note that the Administration and other authorities have spoken out very strongly against it.

The arguments used to justify such measures are well known. The DISC, it is said, simply offsets the tax advantages given to foreign corporations by their own governments, particularly in Europe -- but not, I should add, in Canada. Other countries impose quotas or prohibitions against American exports; why shouldn't the United States do the same? The trouble is that other countries employ similar arguments to justify their economic nationalism. It becomes a vicious circle.

From an Olympian viewpoint, it makes no sense whatever, because everyone ends up poorer than he need be. However, Olympus is a place for the gods. Human beings are nationals of one state or another and act within a national context.

To that extent at least we are all nationalists.

This may seem obvious, but I suggest that it is very difficult to understand and cope with the phenomenon of economic nationalism unless one concedes from the outset that we are all nationalists to some extent.

Americans want the United States to be strong, independent and prosperous. Canadians want the same thing for their country.

It is also just as well to concede from the outset that the politicians who make the laws are likely from the very nature of their calling to be amongst the strongest of nationalists. In democratic countries at least, and I suspect even in socialist countries, politicians must not only give precedence to the national interest but must be seen to do so.

While the fires of nationalism are being banked in the older countries of Western Europe as they join together in an economic union, they burn more brightly than ever in the newly-emerging nations of the Third World and elsewhere.

An analysis of these contradictory tendencies helps to illuminate the problem of economic nationalism in today's world. The old civilizations of Europe that dominated the world for so many centuries are prepared to pool their economic sovereignty because they are satisfied that together they will be more prosperous while each can successfully retain its essential national characteristics and identity. In much of the rest of the world, however, national states are still in process of creating a sense of national identity. They are struggling to prove to themselves and to the rest of the world that they are free and independent, particularly those that were until recently colonies of one of the European powers.

Nationalism is a universal phenomenon; it is essentially a deep emotional issue; for most of the people of the world it is a dynamic force.

Ever since nation states began to emerge at the end of the Middle Ages, the more enlightened of the world's statesmen have been trying to channel the energy of nationalism into peaceful pursuits rather than into war. One cannot say that their attempts have been notably successful. It is instructive, nevertheless, that Europe, once the scene of the bloodiest of wars, has been one of the world's most peaceful areas in recent times and that the most dangerous conflicts have occurred among the less-developed states of the Middle East, Southeast Asia and the Indian subcontinent.

These areas are least able to afford the cost of war. They should be devoting their energies and resources to peaceful development. But to say this is to mouth clichés. It does nothing to resolve the conflicting nationalisms that underlie these tragic wars.

So I suggest to you that there is little point in deploring the excesses of economic nationalism or in proving to one's own satisfaction that

they are self-destructive. What we must do is to ask why it is that illogical and self-destructive policies make an appeal to peoples and to governments.

They do so primarily, I believe, because it is often difficult to distinguish the nationalism that unites the citizens of a country from the policies advocated by the extreme economic nationalists. The protectionists, for example, have always supported their views by emotional appeals to "my country first" against foreign imports. And, when the appeal is made to "my country first" against the operation of foreign-controlled corporations, there can be the utmost confusion in the minds not only of peoples but even of governments.

Some one has said "If you can't lick 'em, join 'em", and I think this advice may have something to contribute to the containment of the excesses of economic nationalism. Those who advocate free trade and who deplore the erection of unnecessary barriers to the movement of goods, capital, technology and ideas would be well advised to identify themselves as believers in nationalism.

This is not a hypocritical position. On the contrary. History is on the side of those who favour freer trade and the international movement of capital, technology and ideas as a means of promoting the legitimate national aspirations of states, whether they are industrialized, developing or, like Canada, a bit of both. Independence derives from economic strength, not from economic weakness.

It is not hypocritical for another reason. When I advise those who favour the liberal approach to trade and investment to identify themselves clearly as believers in nationalism, I mean that they should, in fact, support legitimate national aspirations for freedom and independence, economic and political, wherever they are to be found. There is a sound and defensible case in favour of what may appear at first sight to be attitudes at variance with the liberal, non-discriminatory approach to matters of trade and investment.

I cite as an example the granting of preferential tariff advantages to developing countries. This is a departure from the "most-favoured-nation" principle that has stood the world in such good stead while the quite remarkable postwar reduction of tariff barriers was brought about. Realistically, the developing countries could not be expected to have much to offer by way of tariff reductions to gain improved access to industrialized countries. The extension of non-reciprocal preferential tariff reductions to developing countries is part of a liberalizing trade policy, and by support of such policies those in favour of liberalizing trade can identify themselves as supporting the legitimate national aspirations of the developing countries.

There is also a case, I suggest, for tempering the effect of changes in established trade patterns. We live in a world of increasingly rapid change, and all countries without exception find it necessary to protect their producers from the worst kinds of shock. It would help in resisting the

excesses of economic nationalism and help the cause of trade-liberalization if internationally-accepted mechanisms to deal with such shocks were to be refined.

Perhaps the best example of what I have in mind relates to the operations of what are generally referred to as multinational corporations -- that is, corporations that have one or more affiliates outside the country of the parent company.

As one of those who supports liberal trading and investment policies, I find no contradiction in supporting some limitations on the operations of foreign-controlled corporations in Canada. I would see grave dangers, for example, in United States domination of the Canadian banking system, for in any country domestic control of the banking system is a central instrument of economic policy. I would see grave dangers in permitting our daily newspapers, many of them in a semi-monopoly position, to be controlled by non-Canadians. I feel the same as so do my fellow Canadians about television and radio networks and stations.

As a Canadian, I am equally and quite legitimately concerned when a foreign government tries to use its home-based multinational corporations as a means of implementing its own foreign or domestic policies. That is why, for example, Canada has taken the strongest exception to the efforts of the United States to apply its Trading With the Enemy Act to Canadian subsidiaries of United States corporations, and to apply its anti-trust legislation extra-territorially.

I submit, therefore, that, if irrational ideas and policies about foreign investment are to be successfully resisted, there must be acceptance of the need to meet legitimate concerns of this kind, concerns shared by many who want, first and foremost, to preserve a liberal environment for investment and trade.

Multinational corporations are not the old merchant adventurers -- the East India Company that ruled the teeming Indian subcontinent for nearly 200 years, or the Hudson's Bay Company that for so long controlled the empty vastness of Northwest Canada. They performed tremendous feats of adventure and accomplishment, but along a narrow front of economic exploitation of local resources. Moreover, in their own territories they were a law unto themselves.

To operate effectively, today's multinational corporations must be broadly-based and flexible in their approach, ready to tailor their operations to local conditions, local sensitivities, and local needs. Obviously they must work within the laws of the host country -- more than that, they must identify with and contribute to the aims and priorities of the host country.

Many corporations have acquired a good deal of sophistication in coming to terms with the varying and often conflicting circumstances they face. But many have yet to grasp the basic implications of multinationality,

continuing to be more imperialistic than international and treating their foreign operations as colonial outposts of the home office.

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Opportunity for advancement to the highest level for locally-recruited staff is an obvious necessity, as is participation as a corporate citizen in the social and cultural life of the local community. Perhaps less obvious is the need to rid management of branch-plant mentality and a tendency to see everything in terms of the parent-subsidiary relation. It is asking for trouble, for example, to concentrate research, development and design in the home country, denying to the host nation opportunities to strengthen its own scientific and technological capabilities and to give their own experts the chance to develop at home their special talents and skills. It may also be very poor business.

My concluding thought on the subject of multinational corporations is that we should all -- governments and corporations alike -- be thinking constructively about the development of guidelines and standards -- international law if you like -- for regulating the methods and activities of multinational corporations. Just as governments see advantage in international arrangements covering the conduct of their affairs abroad, so these corporations, with their considerable influence on international situations and relations, stand to benefit from co-operative efforts to build up a body of ground rules.

What is at issue in the debate about economic nationalism is a reconciliation between two principles -- the principle that the peoples of the world will be more prosperous if they trade freely with one another and have access to capital, technology and ideas from all around the world and the principle that the people of each sovereign state should have as much control as possible over their own economic destiny.

It is my belief, and it is the burden of my remarks to you today, that a reconciliation between these two principles is possible without the imposition of harmful restrictions upon trade and capital movements.

My belief is based on what has been happening in the world since the war -- a period that has witnessed the most rapid rise in standards of living in history. It has witnessed the emergence of dozens of new states, each intent on controlling its economic destiny. It has been a period without the kind of world-wide depression that occurred periodically before the war.

And this is the point -- during this same period there has been a dramatic reduction in barriers to international trade, an enormous increase in the volume of trade and an unprecedented and ever-growing movement of capital and technology across national boundaries.

The historical evidence is certainly that freer trade and access to capital, technology and ideas reinforces the ability of individual countries to control and improve their economic performance. I cannot resist adding that the policies of economic nationalism which were so widely practised

during the prewar period did not protect individual countries from the effects of the Great Depression. In fact the reverse was true. Moreover, during this recent postwar period we have seen a dispersal of economic power, not a concentration. The United States, once a giant among mortals, is now only one of the great, sharing its economic power with the new Europe and Japan.

Another reason for my belief that a reconciliation is possible is that the extremes are being abandoned. Protectionism, as such, is no longer respectable as an economic doctrine, no longer acceptable as a means of increasing national wealth. At the other extreme, the art of trade negotiation is improving so that the removal of trade barriers is being managed with less pain. Turning to foreign investment, the argument is no longer in terms of black or white. It is usually presented as a matter of degree, or a matter of behaviour of multinational corporations, or of the degree of control exercised by the government of the parent company, or the sector of the economy in which the investment is being made.

I am impressed, as I am sure you are, by the growing interdependence of the community of nations. The ability of any country -- even the most powerful (even the United States) -- to control its economic destiny is limited. There is no way in which any one country can insulate itself from external economic events, and if it were to try it would probably find that it had lost more than it had gained.

The conflict which might be assumed to exist between the principle that the peoples of the world will be more prosperous if they trade freely with one another and have access to capital, technology and ideas and the principle of total control by a country over its economic destiny is probably more apparent than real. The true options are much more limited in scope. A dramatic illustration of the truth of this hypothesis is to be found in the policies of the highly-controlled socialist countries of Eastern Europe, and particularly the Soviet Union. With all the economic "clout" that group of countries has, they have learned that self-sufficiency, whether in trade or technology, is not a viable goal in an interdependent world.

Let me conclude by applying some of these generalizations to my own country, Canada, where the debate about economic nationalism is probably as intense as in any other country.

With you we share the North American continent north of the Rio Grande. Our economies are interdependent to the point where they might better be described as interlocked. Total trade between us exceeds \$20 billion annually; each is the other's best customer. If we were economies of the same order of magnitude, the problem would be different and certainly less acute. But we are not; there is a factor of ten or more to one in your favour in terms of our populations and our gross national products. In *per capita* terms, Canadian investment in the United States exceeds American investment in Canada. The difference is that your investment in Canada results in some 50 percent American control of our manufacturing industries -- in some sectors, including automobiles and petrochemicals, the percentage is much higher. On the other hand, the degree of Canadian ownership of the American economy is negligible.

American ownership of so much of our economy largely results from the operations of American multinational corporations. This gives us an intimate knowledge and special concern in this area. A very high proportion of our labour force works for American corporations; key decisions affecting our economic life are often made on your side of the border.

These are statements of fact, not complaints. Multinational corporations have brought to us a high degree of prosperity and a great fund of technology. But it is hardly surprising that a great many thoughtful and informed Canadians are concerned, nor is it surprising that the Canadian Government is preoccupied with the same question.

While our approach to foreign investment in general, and American investment in particular, is and will remain a positive one, Canadians are determined that foreign corporations shall serve Canadian interests, buttress Canadian priorities and respond to Canadian aspirations. In both our societies, new forces are coming into play -- a growing concern about the health of our physical environment, a search for new qualitative goals to supplement those that are more material, an urge to equalize opportunities and living standards in economies plagued by regional disparities. None of this is ever easy; in a federal state, it is particularly difficult, as you know just as well as we do.

These new aspirations, as well as basic national interests and priorities, must be taken into account by multinational corporations if they are to continue to have the high degree of freedom of action in Canada that they now enjoy.

In its economic policy, Canada is the most internationalist of nations. This does not imply abrogation of economic sovereignty, any more than our internationalist attitude in world affairs implies abrogation of our political sovereignty.

The nations of the world have learned that they can create international economic institutions to manage economic relations. I believe that in years to come we shall be able to develop existing institutions that try to harmonize power relations -- and find new ones -- to the point where the intractable conflicts that characterize our times will be capable of management.

We need new, more effective and more universal institutions in both the economic and political fields. I believe we shall find them, by the usual tedious process of trial and error. They will come into being in response to changing attitudes. If international institutions are to be effective, they imply acceptance by all states of limitations upon the exercise of sovereignty, of the forces of nationalism.

The trick is to differentiate clearly between essentials and non-essentials. Narrow self-interest and outmoded notions of sovereignty threaten world prosperity and world security today. If they are persisted in, the threat they pose will become more menacing.

I suggest to you that our common goal should be to exercise our national independence, political and economic alike, as responsible parts of a whole that can be greater than its parts, where each of us pursues his own interests and aspirations with full respect for the interests and aspirations of others.

In this endeavour, the whole trading world looks to the United States for responsible and effective leadership, without which the responsible attitudes I have been discussing cannot be translated into action. We look to you for vigorous support of multilateral liberalized trade based on non-discriminatory principles, further improvements in the terms of competition and the encouragement of outward-looking postures by other countries.

Recent statements by the President suggest that longer-term United States economic interests require you to continue to pursue the objectives of freer international trade and capital investment and to seek 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 and serves your own interests and that of all trading nations. Certainly, in all of this you have Canada's full support.

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