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FREE TRADE IMPETUS IN CANADA

By DOUGLAS MARTIN FEB. 21, 1984

More than 20 years ago, Robert Thompson, a member of Parliament from Red Deer, Alberta, summed up the love-hate feelings Canadians have for their southern neighbors: "The Americans are our best friends, whether we like it or not."

The United States is the biggest, most powerful economic engine the world has ever known, and it is right next door, virtually dripping with potential financial benefits. At the same time, the relationship is so unequal that Prime Minister Pierre Elliott Trudeau once said that living next to the United States is like sleeping with an elephant.

Historically, two things have happened. First, trade between the two nations has grown to become greater than any two countries in the world, an estimated \$110 billion this year, more than the United States' combined trade with Europe and Japan.

Second, Canada has tried to shield itself from becoming a 51st state economically by erecting a host of border barriers. Tariffs have become so ingrained in the Canadian spirit that their wide application in 1879 is still called the National Policy. Elections have regularly been lost by advocates of free trade.

Freer Trade Discussion

Now, however, the United States and Canada are actively discussing much freer trade, with United States Trade Representative William Brock and Canada's International Trade Minister, Gerald Regan, holding the most recent talks on Friday. The topic was moving to free trade in specific sectors - steel, agricultural equipment, mass transit equipment, computer and information services and goods purchased by the governments.

From the Canadian side, the impetus is to forge a closer trade relationship to the world's biggest market as global competition is becoming increasingly mean. Significantly, the giants of Canadian business, long advocates of protectionism, are now starting to argue the merits of greatly liberalized trade.

"Some of us in Canada, as in the United State, are looking beyond the sectoral negotiations to a broader and more comprehensive form of trade enhancement," says Thomas d'Aquino, president of the Business Council on National Issues, an organization of 150 chief executives who administer more than \$550 billion in assets.

From the American perspective, the Canadian talks represent one of the few opportunities to push freer trade as multilateral talks drag to a halt.

"It's a matter of real consequence that the world's two largest trading partners are holding this kind of conversation," Mr. Brock said on Friday. "With all the negative news of trade these days, this is exciting."

The discussions so far are to create the kind of borderless movement of goods already characterizing automobile trade under a 1965 pact between the two nations. Eventually, Canadian business interests would like to broaden the discussion to measures to generally enhance trade in the manner of Australia and New Zealand - although strictly avoiding common market type institutions that might be construed as undermining political sovereignty.

Multilateral Agreements

As a function of multilateral agreements, tariffs between the countries are already declining dramatically. The weighted average rate of tariff protection will fall to 9-10 percent by 1987 from 15 percent in 1979. Close to 85 percent of all Canadian exports to the United States will enter duty free, as will 75 percent of United States exports to Canada.

The essential Canadian worry is the sort of nontariff barriers increasingly applied by Congress. In the past year, some 63 bills contained "reciprocity" clauses that would have restricted Canadian exports to the United States. In many instances, such as specialty steels, Canada is sideswiped by measures directed toward Japan and Europe. Similar Canadian actions, of course, have hurt American producers.

On a broader level, the Canadians are motivated by a desire to stay in step with the global path of trade liberalization; a feeling that to make it in "the big leagues," a nation has to be absolutely responsive to market forces, and a belief that change can, in general, be managed gently.

There is also a growing conviction that the world is breaking up into regional trading blocs. The country that former Secretary of State Dean Acheson called "a regional power without a region" would thus like to join forces with the southern colossus to take on newly industrialized powerhouses such as South Korea and Singapore.

Canadian arguments against free trade continue to center on its inherent inequality. "I look upon this country as a colony," said Walter Gordon, a former Finance Minister of Canada, who serves as an inspiration to today's economic nationalists. "We always have one put over on us by the Americans - they're much smarter than we are."

Critics say free trade is an illusion, because of the large American ownership of Canadian industry. Some 48 percent of Canadian manufacturing is foreign controlled, with four-fifths of that American controlled. When 56 percent of Canadian exports to the United States take place between companies of which one partner owns at least 5 percent of the other, the critics say classical economic notions of free trade have no meaning.

Is American Economy Sinking?

And there is a darker question: Is the American economy itself sinking into a sort of obsolescence, as its industrial base erodes? "The real issue is what happens when you hitch you wagon to a falling star?" says Abraham Rotstein, a University of Toronto political economist.

Advocates of freer trade answer that for the last 18 months, the American economy has been the strongest in the world. They also point out that the Business Council's leadership on the issue signals a new attitude on the part of business.

Still, it is an election year in the United States, and most likely in Canada as well, so protectionist voices may be loud enough to be heeded. Therefore, Government officials in both countries suggest that little real progress may be made before next year. And even the strongest Canadian advocates of freer trade insist they do not want to drop all the barriers.

"We want liberalized trade, not free trade," Mr. d'Aquino said.