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Canadian-American Trade Problems in a Multilateral Context

*Theodore R. Gates**

There was a lottery held for the order of speaking this morning, and I am not sure whether it is good to win it or to lose it. As the first speaker I intend to say things that the "real" experts on the panel may not. I want to make some very general observations and pass along some experiences that I, at least, feel show where there have been mistakes in past Canadian-American relations. I also think that I perhaps can stake a claim to some impartiality. At least I think I am one of the few bilateral people on the panel; I have a Canadian mother and an American father so my feelings are mixed.

Perhaps the first thing I might do would be to give you some impressions of the direction I think the United States and Canada are going, largely colored by what has been going on the last two weeks in Washington. I am merely thinking in terms of the beginnings of our American process of developing trade legislation. You will hear a lot more this afternoon from John Jackson, although after the week he has been through he probably will not want to talk much about it. As we look to the future there are some things that have been going on, some problems that have emerged, that I think are relevant.

The first impression one has in Washington these days is the difficulty of beginning to come to grips with the legislative requirements, with the policy requirements, with the interrelationships between the trade problems and the monetary problems, with the awesome complexities of trade barriers and the traditional problems in trade, and with the challenge of new rules and procedural problems. Particularly, it is very difficult to strike a balance between the inherently national self-interest and the international effects of legislation. We see this now in the administration in the formulation of a new trade bill, the Trade Reform Act of 1973,¹ which tries to balance the international requirements with the domestic requirements. And we are certainly going to see more of it

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¹ H.R. 6767, 93d Cong., 1st Sess. (1973).

as the United States Congress grapples with the dilemma of setting a proper balance between the two.

I think that the obvious lesson here is that the two countries have the same problem, that being how to balance the things that each country feels it must do in its own self-interest with other things that it should do in the greater interest of the future world.

A third obvious point that emerges is that it is very difficult for any person today to really understand and grasp the central elements of any current trade problem. One comes away with the feeling, and I am glad you have experts here today, that only experts in individual areas are really competent to understand those areas and that for the generalist or the politician the issues often extend quite beyond his grasp. This applies both to the details of any particular problem or any particular area and certainly to the interrelationships and the balance between them. I think it is quite clear that at least for the time being we will all be fumbling in Washington, in Geneva, and in other capitals. We do not know the answers. We simply know we must get on with it.

If there is any light at the end of the tunnel I think it is the rather platitudinous one that somehow we must find a new blend of various national self-interests and domestic problems in a major determination to better understand each other and to move ahead in a new major effort. If we do not, I think it is rather clear we are in for fairly serious trouble. It has now been 18 months since August 15, 1971. It is very difficult, if one wants to be an optimist, to see how the traumatic experience of that very definite ending of an era 18 months ago has really been succeeded by a forceful and determined substantive effort to move ahead.²

Turning to bilateral relationships, I think Canada and the United States have suffered too long from the perils of proximity and close relationships. Too often the countries have looked at problems and looked at relationships only in a bilateral context. I certainly would say this as one who has participated in trade negotiations with Canada.

In many major areas the United States and Canada have looked only at each other's interests, concentrating too much on solutions that involve only the two of them. Of course, it is a lot easier to solve problems when there are only two sides instead of fifty sides.

² On August 15, 1971, the Proclamation Regarding Imposition of Supplemental Duty for Balance of Payments Purposes was issued, whereby the United States introduced an import surcharge of 10% on dutiable imports.

As we have seen in committees of twenty or even ten, it is much harder to agree.

I certainly think it fair to suggest, with all due respect, that the Canadian trade policy in the past has been far too interested in trade only with the United States. Obviously this stems from, as our chairman has said, the enormous amount of trade between the two countries. The American market is the major market for most Canadian industries, and in past trade negotiations the principal objective of Canada was to negotiate greater access to the American market. In addition, there has been a tendency to maintain a tariff structure and trade policies which are unduly protective. Even if these practices were once justified, they are certainly no longer appropriate, particularly now when a substantial trade surplus exists. Some of these basic policies should now be reconsidered.

Turning to the other side of the ledger, the United States over the last decade has been overly concerned with problems and with countries and policies elsewhere in the world and not concerned enough with Canada. The American preoccupation in trade with the European community and with Japan, for example, has been such that little concern has been given to other problems. Moreover, in recent years the United States has been caught very short by the sudden deterioration of its trade balance.³ As the politician or the policy expert looks at the trade deterioration he sees the dramatic changes from the Auto Pact or our bilateral trade balance. Recently, given the grave future problems of energy and raw material shortages, the United States in many areas has overreacted to purely bilateral problems. At the same time, I think it is also fair to say that over the years American trade affairs have often degenerated to minor bilateral squabbling. A list could be made of some fairly incredible minor issues to which a great deal of time, a great deal of diplomatic traffic, and a great deal of energy of even cabinet level officials have been devoted in the past ten years. The list would begin with the likes of potatoes, shoeboard and milk cans. Many more items could be added, all being issues that were blown out of proportion.

Thus, if I have any suggestions within the broad title of your

³ Since 1965, the United States net trade balance of payments has deteriorated badly. Although export growth has been well maintained, import growth has soared. The United States incurred its first deficit in this century in 1971, when exports exceeded imports by \$2 billion. In 1972, this figure worsened, with the American trade deficit reaching \$6.4 billion. INTERNATIONAL ECONOMIC REPORT OF THE PRESIDENT 40 (1973).

conference, it seems to me that one of the many splended possibilities is to move away from excessive bilateral squabbling and preoccupation with details and to find solutions for larger problems in a multilateral context. In world trade and monetary matters major reforms are needed. We can no longer permit bilateral relationships throughout the world, formed to solve bilateral problems, to interfere with the process of solving multilateral problems simply because the multilateral problems are difficult to understand.

Moreover, many bilateral problems can be solved in a multilateral context. One recent acrimonious issue, of course, was a problem arising out of Canadian policy toward regional development. The finding and creating of jobs back in my mother's home province led to the use of certain subsidies and aids.⁴ Regional assistance is a common problem in many places, but unfortunately it has also become an unlimited kind of competition. The problems of regional development, use of subsidies, and tax differences and tax policies which definitely impact and impinge on foreign trade, require new international approaches.

Another major area in which the United States and Canada have a common interest is the development of trading blocs throughout the world, but primarily in Europe, which, in effect, are developing a very broad area of discrimination against both countries. These blocs change the very nature of world competition for both Canada and the United States. They change the nature of the prospects of Canadian and American exports. They certainly change political realities and, above all, from my more parochial point of view they are going to change the negotiating realities in future efforts to settle and reach better solutions. The major countries in Europe and the innumerable satellite countries now associated with Europe will be negotiating and determining policies and objectives as a unit. If the United States and Canada continue to negotiate without an attempt to seek better coordination, each will lose a great deal of strength.

Turning away from international problems, Canada and the United States have many of the same domestic problems. Textiles are a problem in the United States; they are a problem in Canada. The footwear industry is a problem in Canada; it is a problem in the United States. Both nations certainly share enormous problems

⁴ For a discussion of the use of subsidies in regional development, see *Regional Development Incentives Program*, 78 CANADIAN BANKER 47 (1971).

in agriculture.⁵ They face the same kind of problems in other areas. In the forthcoming negotiations both are going to face the same kinds of confrontations, the same kinds of tactics. Both, in certain areas, still have excessive duties. The European community is going to make it a number one priority to harmonize tariffs. In short, in order to achieve the many splended multilateral possibilities, some of the bilateral problems must be solved. The best way to solve them will often be in a multilateral context. And, in a multilateral context, the most effective way of achieving both separate and shared goals will be through far greater coordination and close working relationships than have been achieved in the past.

⁵ See the statements of D. Gale Johnson and T. K. Warley, *infra*, for a discussion of specific agricultural problems in the United States and Canada.