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U.S.-CANADIAN TRADE AND INVESTMENT FRICTIONS:

THE U.S. VIEW

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This paper contains preliminary findings from research still in progress and should not be quoted without prior approval of the author.

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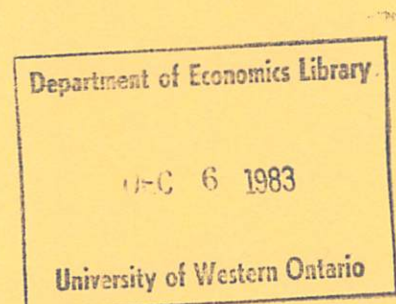

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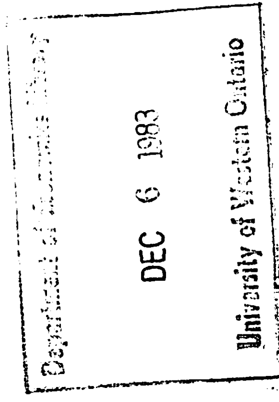
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U.S.-CANADIAN TRADE AND INVESTMENT FRICTIONS: THE U.S. VIEW[1]

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I. Introduction

Since 1980 especially, there has been a marked increase in frictions between the U.S. and Canada arising from national policy actions affecting bilateral trade and investment. The U.S. has become concerned especially by Canada's introduction of the National Energy Program (NEP) in October 1980 and the more stringent imposition by the Foreign Investment Review Agency (FIRA) of trade-related performance requirements on U.S. firms seeking approval of new direct foreign investment in Canada. The Canadian concerns have been centered around the U.S. system of "contingent" protection which has been directed at important sectors of Canada's export trade. My purpose in this paper is to review the foregoing and other significant sources of bilateral frictions and to analyze the range of policy options available to reduce or remove these frictions. Most of the discussion reflects a U.S. view, although this is by no means an endorsement of official U.S. positions and policies.

In order to provide some perspective on the various issues, some factual information is presented in Section II on the composition and geographic distribution of each country's merchandise trade, services, and direct foreign investment, followed by a discussion of the implications of the size asymmetries between the U.S. and Canada, and some comments on differences in attitudes towards intervention. The

various sources of trade and investment frictions that exist currently are then considered in Section III. These include FIRA, the NEP, and a variety of sectoral issues. In Section IV, I discuss the policy options that are available for responding to frictions. Some brief conclusions are given in Section V.

II. Some Salient Characteristics of U.S.-Canadian Trade and Investment Relations

Before considering the various current bilateral trade and investment frictions between the U.S. and Canada, it may be useful to review briefly some important features of the economic relations of the two nations with each other and the rest of the world. Accordingly, I examine below the composition and geographic distribution of each country's merchandise trade, services, and direct foreign investment. I then consider the implications of the size asymmetries between the two countries as they are manifested in the formulation and impact of national policies. Finally, I discuss differences in national attitudes and policies towards government intervention and the increased use of "contingent" protection in the U.S. especially.

The Composition and Geographic Distribution of Merchandise Trade and Services

It is evident from the last line of Table 1 that Canada accounted for about 16 percent of total U.S. merchandise exports and imports in 1981. This was down noticeably compared to 1973, indicating a significant increase in U.S. trade especially with the oil exporting countries and other developing countries. According to Table 2, the U.S. accounted for about two thirds of Canada's total trade in 1981, which was a slightly lower share than in 1973. If we consider the

composition of bilateral trade, manufactures were 84 percent of U.S. exports to Canada and 60 percent of imports from Canada in 1981. Comparing bilateral with total trade, U.S. trade with Canada was concentrated relatively more on manufactures, especially on the export side. This was the case as well for Canada, although it is noteworthy that primary products accounted for 40 percent of Canada's bilateral exports to the U.S. and nearly half of its total exports in 1981.

The more detailed data on the composition of trade in Tables 1 and 2 provide further insight into each nation's "revealed" comparative advantage. Thus, according to Table 1, in 1981 the U.S. had net imports from Canada in all of the categories of primary products and semimanufactures indicated and net exports of engineering products, except for road-motor vehicles, and consumer goods. Using Canadian data in Table 2, the results are broadly the same, although there are some differences which may be attributed to the C.I.F. valuation of imports by the U.S. as well as differences in classifications used in the two countries. Looking at total trade, the U.S. had substantial net exports of food, raw materials, and chemicals and net imports of iron and steel, road-motor vehicles, household appliances, clothing, and other consumer goods. The U.S. pattern of trade is thus much more varied globally than it is bilaterally with respect to Canada.

Receipts and payments on merchandise trade and services by category and area are shown for the U.S. and Canada for 1973 and 1981 in Tables 3 and 4. U.S. net receipts of investment income from Canada were substantial in 1981 and more than offset the U.S. deficit on bilateral trade with Canada. This was the case also for the U.S. with respect to the other industrial countries and the rest of world comprising OPEC,

other developing countries, and the socialist countries. In 1981, Canada's net payments for interest and dividends and other services more than offset its merchandise trade surplus. The bulk of these net service payments went to the U.S.

The Composition and Geographic Distribution of Direct Foreign Investment

It can be seen in Table 5 that, in 1981, mining and petroleum accounted for 30 percent of U.S. direct foreign investment in Canada, manufacturing for 42 percent, and trade, banking, finance, insurance and real estate, and other industries the remaining 28 percent. Petroleum accounted for 13 percent of Canadian direct foreign investment in the U.S. in 1981, manufacturing for 47 percent, and trade, etc., for 40 percent. Overall, 21 percent of U.S. direct foreign investment was in Canada in 1981 and 14 percent of foreign investment in the U.S. was accounted for by Canada. Direct foreign investment in the U.S. increased substantially between 1973 and 1981, especially from the other industrial countries.

The data for Canada's direct foreign investment are presented for 1973 and 1978 in Table 6. Since the system of classification and terminal years differ, comparisons cannot be made directly with the U.S. data in Table 5. In any event, the data indicate that more than half of Canadian direct foreign investment abroad was in the U.S., and the U.S. accounted for about 80 percent of the total in Canada. Canada's net position in 1978 was a negative C$32 billion. Further industry detail is provided in Table 7, which distinguishes between foreign ownersnip and control by the U.S. and other countries for 1977. It can be seen that U.S. ownership and control of capital were 40 percent in mining and smelting, 42 and 51 percent in petroleum and natural gas, and 39 and 42

percent for all manufacturing. While the details for some of the sectors within manufacturing are not given in order to prevent disclosure, the dominating presence of U.S. interests is nonetheless quite apparent in all of the manufacturing sectors noted, except iron and steel mills. For all sectors combined, U.S. ownership and control were 40 and 44 percent.

Implications of Size Asymmetries

The preceding data and discussion amply demonstrate Canada's importance to the U.S. in terms of its trade and direct foreign investment. But the fact remains that the bulk of U.S. trade and investment takes place with other countries and regions in the world. From Canada's standpoint, however, the U.S. occupies a dominant position as an outlet for exports and source of imports and direct foreign investment. Given the size asymmetries between the U.S. and Canadian economies and the broader involvement of the U.S. in the world economy, there are some important implications worth noting with regard to the formulation and impact of national policies in the two countries.

Thus, for example, Canada is much more affected by macroeconomic developments and policies originating in the U.S. than vice versa. Canada may therefore be limited in its ability to conduct independent policies for domestic purposes, especially when financial and real capital are so highly mobile between countries and exchange rates are flexible. Many of these same considerations apply as well to microeconomic policies affecting trade and investment. Thus, for example, U.S. actions to restrict imports of specialty steel during 1983 were aimed primarily against government steel subsidies in certain member countries of the European Economic Community (EEC). Yet Canada

may be affected adversely even though its exports are not subsidized. Thus, Canada may find its economic interests damaged by U.S. policy actions in cases when it is, so to speak, an innocent bystander.

The size asymmetries may have further implications with respect to intergovernmental reactions to each other's policies. Thus, if Canada perceives that its interests are damaged by some U.S. action, it may work through official channels to moderate the adverse effects involved.[3] It might also consider retaliatory action against the U.S., but this seems a less plausible option if the object is to force the U.S. to alter its policy. If the U.S. perceives some damage because of a change in Canadian policy, it can also pursue a diplomatic resolution or consider retaliatory action. In the latter instance, the potential cost to Canada might be sufficiently large to force a change in policy. However, it is by no means obvious that the U.S. could design an effective retaliatory policy without at the same time imposing costly side effects domestically or internationally with respect to other countries.

Attitudes Towards Intervention and Constraints on National Policies

The scope and character of government intervention clearly depend on the ideology that guides the political party in power, its ability to harmonize the interests of different domestic constituencies, and the extent to which the interests and possible reactions of other governments need to be considered. While it is difficult to make comparisons between countries, Canada is perceived as being more inclined towards intervention than the U.S., especially under the Reagan Administration. This perception may stem from the relatively higher Canadian tariffs historically, the strength of provincial governments in

the federation overall, and from such major actions as FIRA which is viewed especially in the U.S. as discriminatory and some features of the NEP which are considered to be confiscatory.

Numerous examples of U.S. intervention can of course be cited, including instances in which foreign rights of establishment and ownership have been constrained or prohibited.[3] Typically these interventions are justified by arguments involving public goods, although there may well be cases (e.g., merchant shipping) in which protection is the major motivation. By the same token, there are also prominent examples of U.S. deregulation in such important sectors as airlines, trucking, financial institutions, and energy. These actions are designed to moderate or eliminate intervention domestically. Problems may arise, however, if foreign regulations remain intact at the same time that deregulation alters the environment and incentives governing international trade and investment.

Governments are naturally sensitive to changes in political and economic currents at home and abroad, and it is common for policies and administrative procedures to be altered in response to changing conditions. For example, personnel changes were made in the Canadian cabinet and in the direction of FIRA in 1982 which have resulted in a much less strident approach to direct foreign investment and a noticeable increase in the rate of approval of applications. These changes were made apparently in recognition of the criticisms of FIRA which had been expressed by business executives in both Canada and the U.S., by the heads of some provincial governments who viewed foreign direct investment as beneficial to regional growth and employment, and by U.S. Government officials. The severe recession affecting Canada and

the prospect of a federal election in 1984 were no doubt major contributing factors in making these changes. While the NEP is still very much in place, with its "back-in" and discriminatory incentive payments provisions intact, the decline in energy prices and the financial difficulties being experienced by Canadian energy firms have certainly altered the premises on which the policy was based and dimmed the enthusiasm for foreign takeovers. It would not be surprising therefore to see some fundamental changes in the NEP especially after the forthcoming election.

One final and important point relates specifically to international trade policy. This involves what Grey (1982, p. 452) has called the rise of "contingent" protection, which refers to the increased use of nontariff measures and a corresponding shift away from tariffs as the focal point of trade policy. The resulting system is much more legalistic and yet more discretionary, with protection being imposed under certain conditions as defined by law and subject to the interpretation of the domestic investigatory bodies. Many of the changes in trade policy in the U.S. reflect the increasing influence of the Congress. This was especially evident during the Tokyo Round negotiations and in the drafting and approval of the various codes and legislation governing dumping, countervailing duties, and unfair trade practices. Further, as Baldwin (1983) has noted, even though the Reagan Administration has paid lip service to a policy of freer trade, it has encouraged fairly strict enforcement of U.S. trade laws. The motivation has at times been to force changes in foreign government trade policies, but there have been significant protectionist pressures as well which the Reagan Administration felt compelled to oblige. It is of course

difficult to chart the future course of trade actions, but the system of contingent protection is very likely to continue generating frictions in U.S.-Canadian trade relations. This is not to say, however, that U.S. trade actions will turn out to be detrimental to Canada since the administrative process may function to defuse protectionism rather than necessarily reinforce it.

III. Current U.S.-Canadian Trade and Investment Frictions

Having reviewed some of the important features of U.S.-Canadian trade and investment relations, I shall now consider the various sources of friction that exist currently. The focus will be particularly on FIRA, the NEP, and certain sectors in which bilateral frictions have arisen. This selection is not intended to be exhaustive, however, and I will not deal with such other bilateral issues as acid rain and other environmental matters, a number of aspects of energy policies, boundary claims, fishing regulations, and defense.

Foreign Investment Review Agency (FIRA)*

Canada's reliance on direct foreign investment in its resource and manufacturing industries was documented above, especially in Table 7. While such investment may have contributed importantly to Canada's economic performance and welfare, there has nonetheless been concern about possible detrimental effects as well. For example, as Dewhirst (1982, pp. 52-53) has noted:

> "...the operations of many foreign-controlled branch plants have been characterized by low levels of research and development, export limitations, and short, inefficient production runs. Moreover, such companies often rely to a large extent on imported technology, resulting in a lack of capacity to develop and undertake the kind of innovation needed to develop products capable of meeting intense competition from other countries in both domestic and international markets.

> Many of the costs associated with foreign ownership stem from the 'truncated' nature of many of these enterprises; that is, key activities are often performed abroad by the parent or some other affiliated firm. One result is that Canadians have been denied the opportunity to develop the skills or capacities that are needed to support and develop internationally competitive businesses. Foreign-controlled subsidiaries also tend to import components and sub-assemblies rather than utilize competitive Canadian supplier industries, thus inhibiting the development of those industries in Canada."

One might take issue with many or all of the assertions contained in the foregoing quotation, but to do so is beyond the scope of the present effort. These assertions are nonetheless important because they are indicative of the forces that underlie the Foreign Investment Review Act of 1973. According to Dewhirst (1982, p. 54):

> "The Act establishes the basic principle that new foreign direct investment must bring significant net benefits to Canada, as well as to the investor and the home country. It prescribes how those benefits are to be assessed by defining five assessment criteria. They are follows:
> 1) the effect of the investment on economic activity in Canada, including employment, resource processing, the sourcing of materials, parts and services produced in Canada, and exports;
> 2) the effect on Canadian participation;
> 3) the effect on productivity, industrial efficiency, technological development, product innovation and variety;
> 4) the effect on competition; and
> 5) the compatibility with national industrial and economic policies of the province or provinces significantly affected."

The right of Canada to screen new foreign direct investment in the national interest is conceded by the U.S. But what concerns U.S. authorities is that FIRA may be administered in a protectionist manner and that it is in contravention of Canada's obligations under the OECD Investment Declaration of 1976 and the Articles of Agreement of GATT. The principle of national treatment, which is that foreign firms will be accorded the same rights and obligations as domestic firms in like situations, is the basis of the OECD Investment Declaration. As McCarthy (1982, p. 62) has noted, while Canada had some reservations

about the Declaration, the presumption was that their investment policies would nonetheless conform to it. Thus, when the FIRA process became more restrictive beginning in 1980, the U.S. objected to the numerous and legally enforceable requirements being imposed on U.S. firms that were believed to be distortionary. These included local-content requirements, export commitments, requirements to hire specific percentages of Canadian management and labor, obligations to move production facilities to Canada, and obligations to transfer technology and patents to Canada without charge. The U.S. was also concerned about the possible extraterritorial extension of the FIRA process to the review of mergers involving foreign companies which might cause a change in the ownership of a Canadian subsidiary.

When bilateral consultations concerning FIRA reached an impasse, the U.S. initiated a GATT action in January 1982, requesting consultations under Article XXII with regard to FIRA local-content and export-performance requirements. When these latter consultations turned out to be inconclusive, the U.S. then invoked the disputes-settlement procedure under Article XXIII. The U.S. contended that the local-content requirements were in violation of GATT Article III concerning national treatment of imports and Article XVII relating to the application solely of commercial considerations to government measures affecting trade. The export requirements were purportedly in violation of Article XVII. In July 1983, a GATT panel concluded that the FIRA local-content requirements were in violation of GATT, but that the export requirements were not covered under GATT. This case will be considered for final recommendations by the governing Council of GATT in the fall of 1983.

It was mentioned earlier that the FIRA review process has been greatly expedited during the past year, following the appointment of a new Cabinet minister and director of FIRA with a more liberal attitude towards foreign direct investment. FIRA is thus presently much less of an irritant in U.S.-Canadian relations than formerly. As previously noted, this change in direction may reflect a variety of factors brought to bear on the Canadian Government in a time of recession, including pressure from the business community in both Canada and the U.S., provincial government pressures to encourage growth and employment, and the efforts of the U.S. Government through various official channels.

Whether the current calm will continue is difficult to say. Much will depend upon the attitudes and objectives of the Canadian Government and its leaders. There is always the risk that FIRA procedures can be tightened once again. Thus, so long as FIRA continues to operate, some firms which might otherwise consider direct investment in Canada may choose not to do so because of the costs and delays involved and the reluctance to adhere to FIRA mandates which are legally enforceable and monitored to insure compliance. Moreover, since FIRA is not required to reveal the reasons for its decisions, firms may have no recourse if their application is not approved. It may be useful therefore for the U.S. to review the possible alternative responses to FIRA decisions that may be detrimental to U.S. interests. I shall return to this below.

<u>National Energy Program (NEP)</u>

The NEP, which was initiated in October 1980, sought to achieve security of energy supply, Canadianization of the oil and natural gas industry, and equity in pricing and the sharing of revenues between the provincial and federal governments. There were several motives

underlying the NEP. According to Sultan (1982, pp. 498-99), these included:

(1) concern over the security of global oil supply following the Iranian revolution;

(2) desire to insulate Canada from future oil shocks;

(3) concern that the province of Alberta would reap excessive rents;

(4) concern that foreign companies would siphon off rents;

(5) desire of the Canadian Government to pursue an interventionist policy ostensibly to enhance national welfare; and

(6) reduce growing federal deficits by capturing a large share of rents from the exploitation of oil and gas resources.

The Canadianization objectives were designed to achieve Canadian ownership equal to 50 percent of production by 1990, Canadian control of a significant number of larger firms, and an increase in the share of the industry owned by the Canadian Government. The main features and consequences of the original NEP and subsequent agreements and update in 1981-82 are discussed in Helliwell and McRae (1981, 1982) and Scarfe (1983). I shall concentrate here accordingly on those aspects of the NEP which most directly affect U.S.-Canadian trade and investment relations and have provoked official U.S. criticism. As noted by Wonder (1982, pp. 483-84), these include:

(1) a retroactive 25 percent Crown share, or "back-in," in existing oil and gas discoveries on Canada (federal) Lands;

(2) replacement of depletion allowances with a Petroleum Incentives Program (PIP), which establishes a system of incentive payments for exploration and development on a scale reflecting the degree of Canadian ownership and control;

(3) a "Buy Canada" policy for goods and services used in exploration, development, and production on Canada Lands and in major nonconventional oil projects.

The retroactive application of the back-in provision is viewed as highly inequitable since it amounts to a rewriting of the investment rules after the fact and may not provide adequate compensation for the expenditures incurred and risks assumed by foreign firms engaged in exploration. The objection to the PIP is that it violates the principle of national treatment by making the incentive payments conditional on the degree of Canadian nationality and control of firms. Finally, the "Buy Canada" policy is in conflict with Canada's obligations under GATT. This latter policy was modified subsequently, but there is still some question in the U.S. that foreign firms might nonetheless be subject to pressure to source within Canada.

Aside from these particular aspects of the NEP, the U.S. was concerned about Canada's campaign to achieve its goal of 50 percent ownership by 1990. This involved a number of takeover activities, and some of the U.S. firms affected argued that the NEP had depressed the value of their holdings. The response in the U.S. Congress was highly critical of these and other Canadian takeover activities, and bills were introduced in both the House and Senate in 1981 which were designed to increase the margin requirements for foreign takeovers and to place a moratorium on takeover actions by Canadian firms. These bills languished in Congress, however, once some of the more newsworthy takeover attempts failed to materialize and market reactions to the NEP set in.

Some of these reactions to the NEP were mentioned above. There was a substantial fall in exploration and production expenditures in 1981 and a significant moving of drilling rigs and skilled personnel out of Canada to the U.S. especially. Further, financing of the takeovers apparently resulted in a sizable depreciation of the Canadian dollar. Citing a Bank of Montreal (1981) study, Scarfe (1983, pp. 44-46) noted that the exchange rate may have depreciated by 1-1/2 U.S. cents between October 1980 and June 1981 due to the takeover activity. Moreover, since foreign currency loans were used to a large extent to finance takeovers, there would be added interest costs and resulting additional downward pressure on the exchange rate ranging between 1-1/4 and 5 U.S. cents, depending upon the assumptions made about the duration and rate of the takeover activities.

Since the advent of the NEP, there has been a marked weakening of energy prices which has necessitated some important changes in the pricing, federal-provincial revenue distribution, and taxation of the energy sector in Canada. These changes have resulted in higher domestic prices to Canadian consumers and lower revenues for both the federal and provincial governments. Because of the complexity of the incentive and taxation systems, it is somewhat difficult to determine what has happened to rates of return to producers. But according to Scarfe (1983), the fiscal changes in the NEP may affect existing production adversely and provide somewhat greater incentives for new, higher cost sources of supply. From the standpoint of U.S.-Canadian relations, the question remains whether any changes will be made in those provisions of the NEP which the U.S. has identified as being most objectionable. These concern chiefly the "back-in" provision and the PIP. The U.S.

will certainly continue to make known its displeasure with these aspects of the NEP, and it is conceivable that some changes may be made following the forthcoming election in Canada.

Sectoral Issues

In addition to FIRA and the NEP, there are a number of particular sectors in which frictions have arisen between the U.S. and Canada. These have involved trade in agricultural products, complaints about subsidies and protectionist actions of various kinds affecting trade in manufactures, and issues connected with production and trade in public goods. Problems have also arisen because of responses to differential deregulation in particular sectors in the two countries. Finally, there are some issues involving extraterritoriality and conflicts of jurisdiction.

A. Trade in agricultural products

Agriculture has long been subject to domestic intervention in the U.S., Canada, and most other countries. Conflicts are bound to arise when domestic producing interests experience some actual or perceived disruption from imports, or when exporting countries pursue different policies which may disrupt market shares.

In terms of bilateral trade in agricultural products, the U.S. has been concerned about Canada's "fast track" safeguard system which permits imposition of a variable import levy when Canadian producers may be affected adversely by relatively low domestic prices. It is the U.S. view that this system may be in violation of GATT Article XIX, which permits safeguard actions only involving changes in the volume of imports. The system was first used by Canada in October 1982 in

response to claims from western Canadian onion growers that imports from the U.S. were having a detrimental impact. The issue here is the extent to which the low domestic prices are a consequence of changes in domestic output and demand or imports. It may be difficult to sort out these various considerations, but sudden upsurges in imports and changes in market shares should be fairly easy to identify. In addition, the U.S. has expressed concern about the tightening of Canadian quotas on imports of eggs and possible subsidies on Canadian exports of eggs to the U.S.

In 1982, the Maine Potato Council instigated an investigation by the U.S. International Trade Commission (ITC) under Section 332 of the Trade Act to determine if the domestic industry was being injured by imports from Canada. The ITC found some evidence of injury, but cited other contributing factors, in particular poor quality control, a shift in consumer preferences from white Maine potatoes to russet potatoes grown in the northwest, and an overall reduction in U.S. potato consumption. The Maine producing interests then filed an antidumping petition against Canadian imports, and the ITC subsequently ruled preliminarily that there was material injury. The U.S. Commerce Department later found preliminary evidence of dumping by Canadian producers. If in the next stage of the investigation the ITC reaches a determination that there is material injury, special dumping duties may be imposed. This particular action is indicative both of the importance of regional agricultural interests and the way in which these interests may exploit the system of contingent protection that is now central to the administration of U.S. trade policy.

An example of an action precipitated by the U.S. support program for sugar concerns blended sugars imported from Canada. These are products made in Canada using sugar imported at relatively low world prices and then exported to the U.S. without restriction. To the extent that these blended sugars compete with U.S. domestic sugar and with imports under quota, the U.S. support program may be undermined. The U.S. sugar program falls under a more general exemption for U.S. agricultural programs permitted by GATT in 1950. Given the continuance of this exemption and notwithstanding the criticisms that can be made of it on efficiency grounds, it is not likely that unrestricted imports of blended sugars from Canada will be permitted to continue.

On the export side, problems have arisen as a consequence of U.S. actions intended to deter the EEC from subsidizing its grain exports to world markets. In particular, the U.S. has used "blended credit" subsidies in selling wheat to some Middle Eastern countries which have traditionally purchased supplies from the EEC. The U.S. action may have a detrimental effect on Canada, however, to the extent that Canadian exports to these markets may be displaced. Canada has an interest in forcing the EEC to limit its agricultural export subsidies and, at times, Canadian wheat exports have been marketed at concessional prices by the Wheat Board. Thus, while there is some potential for bilateral conflict here, the U.S. and Canada are dominant forces in world grain markets and they have more to gain from collaborative efforts than from direct competition with one another.

B. Subsidies and protectionist actions affecting trade in manufactures

The serious recession occurring in the U.S. and Canada has exacerbated protectionist pressures in various sectors, and some potentially costly actions have been threatened or taken in the U.S. especially. Perhaps the most serious of these involved charges that Canadian softwood lumber exports to the U.S. were being unfairly subsidized because of the comparatively low stumpage prices being paid to the government of British Columbia by private producers for cutting timber on public lands. A countervailing duty action was instigated by U.S. producers and preliminary investigation by the ITC ruled in November 1982 that there might be injury. The Commerce Department then sought to determine the extent of subsidy as the basis for a possible countervailing duty action. It was concluded in March 1983 that any subsidies were "de minimis" and the case was terminated.

The Canadian lumber case is interesting and important for a number of reasons. U.S. lumber producers in the Pacific Northwest had been seriously affected by the weak housing market in the U.S. Imports from Canada may well have made their situation worse, but the chief reasons for their problems were clearly domestic in origin, including being locked into stumpage contracts negotiated in earlier periods when lumber prices were relatively higher. Nonetheless, the U.S. producers instituted a potentially very costly action under U.S. law, given that there was close to $2 billion of trade involved. This is not to say that there is no case to be made against Canadian lumber policy, particularly with respect to bidding practices and the longstanding restrictions on the exports of logs from British Columbia. But these

are policies that have been in place for a considerable period of time, and there is no clear legislative authority for challenging them.

Another interesting case involved a countervailing duty action brought in 1982 by the Budd Company of Michigan. At issue was a financing agreement between the Export Development Corporation of Canada and the Metropolitan Transportation Authority (MTA) of New York City, whereby subway cars were to be provided by Bombardier, Inc. of Montreal at a subsidized interest rate. Export-credit subsidies have been a bone of contention between the U.S. and other industrial countries for some time, and it has proven difficult to obtain an international consensus to bring these subsidies under control. In this particular case, the Canadian manufacturer was responding to competitive pressures from other foreign (French) bidders. Yet the action was potentially countervailable under U.S. law. The case in question was never brought to conclusion, however, since the Budd Company withdrew its complaint. The reason may have been that it did not wish to disclose its financial condition in the course of an investigation to determine if there was injury. This is then a further example of the way in which the U.S. system of contingent protection can be used as a technique for harassment of foreign producers, although there were broader issues of export credits present as well.

The preceding countervailing actions and investigations instituted under U.S. law are vivid illustrations of the workings of the system of contingent protection and the resulting harassment that foreign producers may experience. Yet in both of these instances the proceedings were terminated. This suggests that the system of contingent protection does not always or necessarily result in actual

protectionist measures being introduced by the U.S. Perhaps Canada has simply been fortunate thus far in this regard. But it might just as well be argued that the administrative procedures followed under U.S. law may serve to defuse protectionism rather than reinforce it.

Before concluding this section, it is worth noting some other actions taken which have important bilateral implications. For example, the "Buy America" provision was amended in the U.S. Surface Transportation Act of 1982. This amendment, which was not covered under the GATT procurement code, increased the preference from 10 to 25 percent for cement and structural steel for transportation projects financed with federal funds. Canada has requested a waiver of the provision for projects in border areas. Vehicles were covered in the amendment originally, but a waiver was obtained to exempt Canada. The issue of a further waiver presumably can be resolved through bilateral discussions if the U.S. is agreeable.

Finally, as mentioned above, Canada's exports of selected steel products to the U.S. may have been adversely affected by relief granted to U.S. producers under the Trade Act. In this case, countries other than Canada may represent the source of the alleged difficulties, but the policy of restraint makes no distinction among supplying countries.

Actions of concern to the U.S. include passage of legislation to extend Canadian customs jurisdiction to 200 miles or to the end of the continental shelf and the compulsory licensing of pharmaceutical patents. The extension of the customs jurisdiction will involve levying tariffs on oil-drilling ships and equipment beyond the 12-mile limit, which is apparently without precedent. The compulsory licensing of pharmaceutical patents has affected U.S. firms adversely because of the

short period of patent protection realized in Canada and the relatively small royalty provided thereafter. This policy is actively under review following complaints by some major drug companies in Canada and accompanying reductions of their Canadian operations.

C. Issues involving public goods

There are some vexing environmental issues, acid rain in particular, and questions concerning fishing rights and water quality and use that are under active discussion between the U.S. and Canada. I shall not attempt to deal with these matters, however, but instead will discuss some issues involving transborder telecommunications and national defense.

The U.S. and Canada have common interests in the development and use of satellites for the transborder communication of data, hemispheric broadcasting, and other telecommunication services. There are important and sensitive issues of national policy at stake here, and the relevant agencies in each country are in close contact in exchanging views and seeking areas of bilateral agreement. Two areas of current bilateral concern involve border broadcasting and copyright retransmission.

Since 1976, Canada has denied Canadian firms tax deductions for the cost of foreign advertising which is directed mainly at Canadians. This had a clearly adverse impact on U.S. television stations whose programming could be received in Canada. A Section 301 petition was filed in 1978 by 15 U.S. border broadcasting stations, and in 1980 a determination was made that the Canadian action was injurious to U.S. commercial interests. It was proposed then and again in 1981 that the U.S. Congress enact comparable legislation aimed at Canada, but no action was taken. In the summer of 1983, legislation was once again

introduced in the Senate. The issue is now under study in Canada in connection with an official review of the Canadian Income Tax Act, but it is not clear how it may be resolved.

With respect to copyright retransmission, the U.S. has objected to the existing Canadian cable law and broadcast policy which denies U.S. copyright owners compensation for retransmission in Canada of material broadcast by U.S. border stations. The U.S. has compulsory licensing covering copyright retransmission, and there is some sentiment in Congress for prohibiting payments to Canadian copyright owners pending a change in Canadian policy. This issue is at the moment unresolved.

An issue involving national defense concerns the U.S. restrictions introduced in 1982 on the importation of specialty metals in Department of Defense procurement. These metals include titanium, zirconium, nickel, iron-nickel, and cobalt base alloys. Canada sought a waiver which would permit the export of bulk specialty metals on the grounds that they are distinct from defense systems. The argument was that it made sense to view a single North American industrial base for purposes of mobilization and defense, and that the amount of defense procurement was only about 5 percent of total U.S. production. The Department of Defense supported the request for a waiver, and legislation has been obtained to grant it.

U.S.-Canadian relations involving public goods clearly entail many sensitive areas of national concern. Nonetheless, when costly restrictions are introduced that are inimical to economic welfare, it would be desirable to seek accommodations in policies that will mitigate detrimental cross-national impacts and promote joint objectives.

D. <u>Issues of deregulation</u>

In recent years, there has been a significant movement towards deregulation in a number of important sectors in the U.S., including trucking, airlines, banking and financial services, and energy. Deregulation is also occurring in Canada, but probably to a lesser extent than in the U.S. Because of national differences in regulations affecting particular sectors, some problems have therefore arisen between the U.S. and Canada.

With the deregulation of trucking in the U.S. under the Motor Carrier Act of 1980, Canadian trucking firms have been able to operate in a liberalized environment along with U.S. firms. In Canada, a U.S. trucking firm must obtain provincial approval as well as approval from FIRA. U.S. firms have alleged that the Canadian regulatory systems place them at a competitive disadvantage vis-a-vis Canadian firms. There was also a dispute that arose over air fares when the U.S. denied permission for a Canadian airline to offer discounted fares for certain flights from Canada to the U.S. This was in retaliation for earlier Canadian action which prevented a U.S. carrier from matching a Canadian competitor's fares within Canada.

The complaints of U.S. trucking firms involve the issue of national treatment mentioned earlier, although there is an element of reciprocity present in both this instance as well as in the airline-fare disputes. As differential deregulation occurs in other sectors, it is likely that further bilateral frictions will arise. The procedures and resolutions of the bilateral disputes in the transportation sector may well be suggestive in handling potential problems elsewhere that may occur in the future.

E. Extraterritoriality and conflicts of jurisdiction

There have been several occasions in the past when U.S. policy actions affected foreign subsidiaries in Canada and elsewhere and thus led to conflicts as to whether the U.S. had appropriate jurisdiction. The U.S. actions have involved extraterritorial application of such laws as antitrust, trading with the enemy, control of foreign assets, and export controls and sanctions. In addition, several U.S. regulatory agencies have the authority to act with extraterritorial jurisdiction.

Thomas (1983) argues that the U.S. claim to the legality of extraterritorial application of U.S. antitrust law and presumably other U.S. laws and regulations has no basis either in international law or international relations. Under these circumstances, it is not surprising that unilateral U.S. extraterritorial actions may provoke diplomatic conflict. Canada is particularly vulnerable to the extraterritorial application of U.S. laws and regulations in view of the extensive amount of its trade and direct foreign investment involving the U.S. This is not to say that Canada's interests will necessarily be adversely affected in every case, for there may be circumstances in which it could gain, as for example, by elimination of anticompetitive behavior in response to U.S. antitrust proceedings. Nonetheless, there is wide scope for U.S. legal intervention in Canadian affairs which could prompt Canada to institute retaliatory legislation or actions if the views and interests of the two countries happen not to coincide.[8]

IV. Policy Options for Responding to U.S.-Canadian Trade and Investment Frictions

Having reviewed the major sources of friction between the U.S. and Canada relating to trade and investment, it may be useful to consider

the policy options available for responding to these frictions. A useful classification of the various options has been provided by Hufbauer (1981), as follows: inaction; bilateral efforts; multilateral efforts; and unilateral measures, including public response, mixed public-private response, and private actions.

A policy of inaction is premised on the assumption that if intervention is damaging to a country's interest, there will be market responses which will bring about pressure for change. In other words, market forces will punish the interventionists. The market reactions to FIRA and the NEP noted previously are perhaps instructive here. The difficulty is, however, that the negative impacts of the intervention are not avoided to begin with, and, given the nature of and time lags involved in the political process, the damaging effects may persist for some time. Bilateral efforts may be important and useful therefore to head off frictions and seek to reduce or remove them once they occur.

The U.S. and Canada have a long tradition of official contacts at different levels of government, and in general this process has worked smoothly and effectively. Relations have nonetheless been strained by national policy actions on occasions when there may have been little prior communication between the countries or when existing channels have malfunctioned. Again, FIRA and the NEP are cases in point, as Wonder (1982) has noted in discussing the interagency problems reflected in the Reagan Administration's initial dealings with Canada over these issues and the Congressional pressures for retaliatory actions. Once unfavorable market reactions began to occur, however, especially during a time of recession, pressure on Canadian authorities mounted from the private sector and the provincial governments to effect significant

moderation of the policies. Some credit for these changes should also be attributed to the eventual clarification of U.S. official views and the pursuit of U.S. interests in bilateral dialogue. In any event, the bilateral relationship is currently (September 1983) functioning much more smoothly than was the case a year or two ago.

In order to help resolve future bilateral disputes, the idea of establishing a U.S.-Canada Commission on Trade and Investment might be worth exploring along the lines suggested in Macdonald (1982). As he notes (p.231) in reflecting on previous experience in managing bilateral relations:

> "...when an institution has been established between the two governments to deal with matters of high policy, such as ministerial committees to resolve economic problems, it has not worked. Ministers are in politics and refuse to be confined to the Procrustean bed of a single institution. They need more manoeuverability than a bilateral committee can provide.
>
> Conversely, where an issue involves an immense amount of detail, humble detail, and calls for a high order of expertise and where it entails no major political question, bilateral institutions have been successful."

A commission of this kind would function mainly in a fact-finding role and as a means of promoting conciliation of trade and investment disputes. It would not replace existing multilateral arrangements, although it could be extended to include relations with other important countries or regions such as Japan and the EEC. As noted, a commission would not necessarily be effective when there were important political stakes involved in bilateral disputes, as for example in the cases of FIRA and the NEP. Intergovernmental diplomacy and the resort to multilateral dispute settlement procedures would then be in order.

Turning now to multilateral policy options, they are best designed to complement and reinforce bilateral efforts. Thus, for example, it

may be fruitful to pursue multilateral discussions and negotiations to clarify and limit the use of investment-performance requirements. The difficulty is, however, that multilateral efforts may take a long time before agreement can be reached, and even then the agreement may not be effective unless countries are motivated to limit the extent of their interventionist policies. It is nonetheless important for the world economy that there be an effective multilateral framework governing international trade and investment. The U.S. complaint in GATT concerning Canadian local-content and export-performance requirements is an important example of bringing multilateral authority to bear on an issue that is troublesome bilaterally but has implications that go beyond the particular case. This point also applies to other policies that come under the purview of GATT, especially subsidies and countervailing duties, antidumping actions, and government-procurement restrictions. Thus, bilateral and multilateral policy initiatives and responses should proceed in tandem.

A case for unilateral measures can be made when bilateral efforts do not succeed and multilateral efforts are too time consuming or not clearly applicable. As Hufbauer (1981, p. 8) notes: "The art is to design [unilateral] measures that do not overreact, that redress the injury caused, that penalize the offender, and that minimize harm to innocent parties." Clearly this is no easy matter. Unilateral measures include what Hufbauer has called public response, mixed public-private response, and private right of action.

From the U.S. standpoint, public responses include resort to Section 301 of the Trade Act which relates to foreign actions which are damaging to U.S. commercial interests. This was used in the border-broadcasting

dispute engendered by Canada's disallowing tax deductions for advertising in foreign media aimed at Canadian consumers. The U.S. proposed "mirror" legislation in the Congress, but no definitive steps were taken apparently because of objections by U.S. media interests. Other public responses include the threat to amend or abrogate existing bilateral treaties relating to investment or taxation or to place restrictions on the availability and terms of foreign credits. The main drawbacks of these various measures of public response, as Hufbauer (1981, p. 10) has noted, is that they may become dominated by political considerations and not really address the injury of the parties involved.

A mixed public-private response is when a complaint is initiated to a public agency by the parties (e.g., firms, workers) directly affected by a foreign action. The agency will then institute an investigation to determine if injury has occurred and, if so, it will recommend an appropriate response. This is of course what exists already in the system of contingent protection that is in place in the U.S. and elsewhere. A mixed public-private response has merit insofar as it can address directly the interests of the parties involved and be used to place leverage on the other country to change its policy. There may be serious drawbacks, however, since it is difficult to devise and implement a mechanism of response that is capable of distinguishing legitimate cases of injury from simply protectionist demands. Also, political factors may be introduced.

Finally, the private right of action is when the party affected can institute judicial proceedings under the appropriate statutes and seek redress from the offending party. This would require clear statutory

authorization to cover the various circumstances in which injury may be claimed to have occurred. It would also be necessary to coordinate and harmonize these private rights of action with existing bilateral and multilateral obligations and mechanisms for resolving disputes.

If we consider the range of policy options, the combination of inaction, bilateral efforts, and multilateral efforts seems preferable to the various types of unilateral measures noted. The reasons are that unilateral measures may become highly politicized or be transformed into mechanisms of protection.

V. Conclusion

Given the proximity of the U.S. and Canada and the substantial interdependence which characterizes their trade and investment relations, bilateral frictions are bound to arise. Following the introduction of the NEP in 1980 and the tightening of the FIRA review process, U.S.-Canadian relations were subject to considerable strain. Bilateral relations have become more harmonious, however, as Canadian policies were moderated. From the U.S. standpoint, the NEP and FIRA nonetheless continue to pose difficulties because they violate the principle of national treatment and may involve the imposition of potentially damaging performance requirements. Canada's chief worry will continue to be the impact of U.S. trade actions that are mandated by the system of contingent protection.

There are several policy options available for dealing with bilateral issues. My preference is for a mixture involving inaction, bilateral consultations, and efforts to extend and improve bilateral and multilateral procedures and mechanisms for resolving conflict. The U.S. has a variety of unilateral measures that might also be used. But since

these measures may become politicized or transformed along more protectionist lines, I find them less promising.

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Footnotes

[1] I would like to thank Alan Deardorff, William Merkin, Gary Saxonhouse, Steven Watkins, and members of the Research Seminar in International Economics of The University of Michigan for helpful comments on an earlier version of this paper.

[2] I might mention here the views of proponents of U.S.-Canadian free trade, such as Wonnacott and Wonnacott (1982), who assert that existing tariffs in <u>both</u> Canada and the U.S. are especially detrimental to Canada. It is argued that the U.S. tariff prevents Canadian manufacturing firms from exploiting economies of scale which might otherwise be realized if their markets could be enlarged. In addition, the U.S. tariff is alleged to impede investment and reorganization by Canadian firms to serve the U.S. market. If free trade were permitted between the two countries, Canada would presumably realize significant benefits. A further benefit might be a reduction in bilateral frictions since Canada would have a greater voice in affecting U.S. trade and investment actions. Not everyone shares this enthusiasm for free bilateral trade, however, since there may be an exaggeration of the gains from higher productivity and of the barriers that supposedly impede the expansion of Canadian manufacturing firms. See, for example, Wilkinson (1982).

[3] For details, see especially FIRA (1982).

[4] For some useful references concerning FIRA and related issues involving the regulation of foreign direct investment and performance requirements, see Bale (1982a,b; 1983); Dewhirst (1982); Fontheim and Gadbaw (1982); Gotlieb (1982b,c); Hufbauer (1981); Hufbauer and Samet

(1982); McCarthy (1982); Safarian (1982); Stocks (1982); U.S. ITC (1982, esp. pp. 120-42; 1983, esp. pp. 144-45); and Wonnacott (1982a,b).

[5] In this connection, see Thomas (1983, esp. pp. 29-30) and Gotlieb (1982a, esp. pp. 18-19).

Table 1

United States Merchandise Trade by Commodity Groups and Area, 1973 and 1981
(Billions of U.S. Dollars; Exports F.O.B., Imports C.I.F.)

Commodity Group	Year	Canada					Other Industrial Countries					OPEC, Other Dev. Countries, & Socialist Countries					Total Merchandise Trade				
		Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.
(1) Primary products	1973	2.2	15.4	7.0	39.8	-4.8	13.7	44.3	6.0	18.6	7.7	8.9	40.3	14.3	63.8	-5.4	24.8	36.7	27.3	37.9	-2.5
	1981	5.9	16.4	17.4	39.7	-11.5	34.5	38.0	19.0	19.3	15.5	28.0	30.5	86.8	69.8	-58.8	68.4	31.3	123.2	46.2	-54.8
Food	1973	1.0	7.0	1.0	5.7	-	8.7	28.2	3.8	11.8	4.9	6.9	31.2	5.5	24.6	1.4	16.6	24.6	10.3	14.3	6.3
	1981	1.8	5.0	2.1	4.8	-0.3	19.4	21.3	6.4	6.5	13.0	20.4	22.2	12.3	9.9	8.1	41.6	19.0	20.8	7.8	20.8
Raw matrls.	1973	0.4	2.8	2.2	12.5	-1.8	2.5	8.1	0.5	1.5	2.0	1.0	4.5	0.8	3.6	0.2	3.9	5.8	3.5	4.9	0.4
	1981	0.9	2.5	4.0	9.1	-3.1	4.9	5.4	0.8	0.8	4.1	3.8	4.1	1.8	1.4	2.0	9.6	4.4	6.6	2.5	3.0
Ores & other minerals	1973	0.2	1.4	0.8	4.5	-0.6	0.9	2.9	0.3	0.9	0.6	0.4	1.8	0.8	3.6	-0.4	1.5	2.2	1.9	2.6	-0.4
	1981	0.7	1.9	1.6	3.7	-0.9	2.2	2.4	0.8	0.8	1.4	1.0	1.1	1.9	1.5	-0.9	3.9	1.8	4.3	1.6	-0.4
Fuels	1973	0.4	2.8	2.1	11.9	-1.7	1.0	3.2	0.6	1.9	0.4	0.4	1.8	6.4	28.6	-6.0	1.8	2.7	9.1	12.6	-7.3
	1981	1.9	5.3	7.5	17.1	-5.6	6.4	7.0	8.5	8.6	-2.1	2.0	2.2	68.3	54.9	-66.3	10.3	4.7	84.3	31.6	-74.0
Non-ferrous metals	1973	0.2	1.4	0.9	5.1	-0.7	0.6	1.9	0.8	2.5	-0.2	0.2	0.9	0.8	3.6	-0.6	1.0	1.5	2.5	3.5	-1.5
	1981	0.6	1.7	2.2	5.0	-1.6	1.6	1.8	2.5	2.5	-0.9	0.8	0.9	2.5	2.0	-1.7	3.0	1.4	7.2	2.7	-4.2
(2) Semi-manufactures	1973	1.9	13.3	2.6	14.8	-0.7	4.5	14.6	6.5	20.1	-2.0	3.4	15.4	1.6	7.1	1.8	9.8	14.5	10.7	14.8	-0.9
	1981	5.1	14.2	9.0	20.5	-3.9	14.2	15.6	19.8	20.1	-5.6	16.0	17.4	6.3	5.1	9.7	35.3	16.2	35.1	13.2	0.2
Iron and steel	1973	0.4	2.8	0.3	1.7	0.1	0.2	0.6	2.8	8.7	-2.6	0.6	2.7	0.3	1 3	0.3	1.2	1.8	3.4	4.7	-2.2
	1981	0.8	2.2	1.4	3.2	-0.6	0.4	0.4	9.2	9.4	-8.8	1.7	1.9	1.6	1.3	0.1	2.9	1.3	12.2	4.6	-9.3
Chemicals	1973	0.9	6.3	0.6	3.4	0.3	3.2	10.4	1.8	5.6	1.4	2.2	10.0	0.3	1.3	1.9	6.3	9.3	2.7	3.7	3.6
	1981	2.8	7.8	3.1	7.1	-0.3	11.0	12.1	6.6	6.7	4.4	11.1	12.1	1.6	1.3	9.5	24.9	11.4	11.3	4.2	13.6
Other semi-manufactures	1973	0.6	4.2	1.7	9.7	-1.1	1.1	3.6	1.9	5.9	-0.8	0.6	2.7	1.0	4.5	-0.4	2.3	3.4	4.6	6.4	-2.3
	1981	1.5	4.2	4.5	10.3	-3.0	2.8	3.1	4.0	4.1	-1.2	3.2	3.5	3.1	2.5	0.1	7.5	3.4	11.6	4.4	-4.1
(3) Engrg. products	1973	9.3	65.0	7.5	42.6	1.8	11.1	35.9	15.4	47.7	-4.3	8.8	39.8	2.7	12.1	6.1	29.2	43.2	25.6	35.6	3.6
	1981	22.7	63.1	16.0	36.5	6.7	37.5	41.3	50.8	51.7	-13.3	42.8	46.7	14.7	11.8	28.1	103.0	47.1	81.5	30.6	21.5
Specialized machry.	1973	2.0	14.0	0.8	4.5	1.2	2.8	9.1	2.3	7.1	0.5	3.0	13.6	0.1	0.4	2.9	7.8	11.5	3.2	4.4	4.6
	1981	5.6	15.6	2.2	5.0	3.4	8.1	8.9	8.9	9.1	-0.8	14.6	15.9	1.3	1.0	13.3	28.3	13.0	12.4	4.7	15.9

Table 1 (continued)

Commodity Group	Year	Canada					Other Industrial Countries					OPEC, Other Dev. Countries, & Socialist Countries					Total Merchandise Trade				
		Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.
Office & tele-comm. equipmt.	1973	0.5	3.5	0.2	1.1	0.3	2.3	7.4	1.3	4.0	1.0	1.1	5.0	1.0	4.5	0.1	3.9	5.8	2.5	3.5	1.4
	1981	1.7	4.7	1.0	2.3	0.7	8.5	9.4	4.5	4.6	4.0	4.3	4.7	5.5	4.4	-1.2	14.5	6.6	11.0	4.1	3.5
Road mtr vehicles	1973	4.1	28.7	4.9	27.8	-0.8	0.7	2.3	5.6	17.3	-4.9	1.1	5.0	0.1	0.4	1.0	5.9	8.7	10.6	14.7	-4.7
	1981	8.4	23.3	9.0	20.5	-0.6	2.0	2.2	19.6	19.9	-17.6	5.3	5.8	0.4	0.3	4.9	15.7	7.2	29.0	10.9	13.3
Other machinery & trnsp. equipmt.	1973	2.4	16.8	1.5	8.5	0.9	4.9	15.9	3.7	11.5	1.2	3.3	14.9	0.7	3.1	2.6	10.6	15.7	5.9	8.2	4.7
	1981	6.4	17.8	3.6	8.2	2.8	17.8	19.6	11.3	11.5	6.5	17.1	18.6	4.2	3.4	12.9	41.3	18.9	19.1	7.2	22.2
Hsehld. applncs.	1973	0.3	2.1	0.1	0.6	0.2	0.4	1.3	2.5	7.7	-2.1	0.3	1.4	0.8	3.6	-0.5	1.0	1.5	3.4	4.7	-2.4
	1981	0.6	1.7	0.2	0.5	0.4	1.1	1.2	6.5	6.6	-5.4	1.5	1.6	3.3	2.7	-1.8	3.2	1.5	10.0	3.8	-6.8
(4) Consumer goods	1973	0.9	6.3	0.5	2.8	0.4	1.6	5.2	4.4	13.6	-2.8	1.0	4.5	3.8	17.0	-2.8	3.5	5.2	8.7	12.1	-5.2
	1981	2.3	6.4	1.4	3.2	0.9	4.7	5.2	8.7	8.9	-4.0	4.9	5.3	16.5	13.3	-11.6	11.9	5.4	26.6	10.0	-14.7
Textiles	1973	0.3	2.1	0.0	-	0.3	0.6	1.9	1.0	3.1	-0.4	0.4	1.8	0.7	3.1	-0.3	1.3	1.9	1.7	2.4	-0.4
	1981	0.7	1.9	0.1	0.2	0.6	1.2	1.3	1.4	1.4	-0.2	1.7	1.9	1.6	1.3	0.1	3.6	1.6	3.1	1.2	0.5
Clothing	1973	0.0	-	0.1	0.6	-0.1	0.1	0.3	0.6	1.9	-0.5	0.2	0.9	1.6	7.1	-1.4	0.3	0.4	2.3	3.2	-2.0
	1981	0.1	0.3	0.1	0.2	-	0.5	0.6	0.8	0.8	-0.3	0.7	0.8	7.3	5.9	-6.6	1.3	0.6	8.2	3.1	-6.9
Other consumer goods	1973	0.6	4.2	0.4	2.2	0.2	0.9	2.9	2.8	8.7	-1.9	0.4	1.8	1.5	6.7	-1.1	1.9	2.8	4.7	6.5	-2.8
	1981	1.5	4.2	1.2	2.7	0.3	3.0	3.3	6.5	6.6	-3.5	2.5	2.7	7.6	6.1	-5.1	7.0	3.2	15.3	5.7	-8.3
Total mfs. (2-4)	1973	12.1	84.6	10.6	60.2	1.5	17.2	55.7	26.3	81.4	-9.1	13.2	59.7	8.1	36.2	5.1	42.5	63.3	45.0	62.1	-2.5
	1981	30 1	83.6	26.4	60.3	3.7	56.4	62.0	79.3	80.7	-22.9	63.7	69.5	37.5	30.2	26.2	150.2	68.7	143.2	53.8	7.0
Total trade	1973	14.3	100	17.6	100	-3.3	30.9	100	32.3	100	-1.4	22.1	100	22.4	100	-0.3	67.3	100	72.3	100	-5.0
	1981	36.0	100	43.8	100	-7.8	90.9	100	98.3	100	-7.4	91.7	100	124.3	100	-32.6	218.6	100	266.4	100	-47.8
Area, %	1973		21.2		24.3			45.9		44.7			32.8		31.0			100		100	
	1981		16.5		16.4			41.6		36.9			41.9		46.7			100		100	

Source: Adapted from GATT, International Trade 1981/82, Table A13.

Table 2

Canadian Merchandise Trade by Commodity Groups and Area, 1973 and 1981
(Billions of U.S. Dollars; Exports F.O.B.)

Commodity Group	Year	United States					Other Industrial Countries					OPEC, Other Dev. Countries, & Socialist Countries					Total Merchandise Trade				
		Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.
(1) Primary products	1973	7.1	41.8	2.2	13.5	4.9	4.5	76.3	0.9	19.6	3.6	1.5	68.2	1.6	76.2	-0.1	13.1	52.2	4.7	20.4	8.4
	1981	17.8	40.1	7.4	17.0	10.4	9.1	69.5	1.9	18.3	7.2	5.6	57.7	6.9	73.4	-1.3	32.5	48.4	16.2	25.6	16.3
Food	1973	1.0	5.9	1.1	6.7	-0.1	1.4	23.7	0.6	13.0	0.8	1.1	50.0	0.4	19.0	0.7	3.5	13.9	2.1	9.1	1.4
	1981	2.0	4.5	2.5	5.7	-0.5	2.9	22.1	1.0	9.6	1.9	3.9	40.2	1.0	10.6	2.9	8.8	13.1	4.5	7.1	4.3
Raw matrls.	1973	2.1	12.4	0.4	2.5	1.7	0.8	13.6	0.1	2.2	0.7	0.1	4.5	0.1	4.8	-	3.0	12.0	0.6	2.6	2.4
	1981	3.7	8.3	1.0	2.3	2.7	2.3	17.6	0.1	1.0	2.2	0.5	5.2	0.2	2.1	0.3	6.5	9.7	1.3	2.1	5.2
Ores & other minerals	1973	0.8	4.7	0.2	1.2	0.6	1.5	25.4	0.1	2.2	1.4	0.1	4.5	0.1	4.8	-	2.4	9.6	0.4	1.7	2.0
	1981	1.6	3.6	1.2	2.8	0.4	2.3	17.6	0.2	1.9	2.1	0.7	7.2	0.2	2.1	0.5	4.6	6.8	1.6	2.5	3.0
Fuels	1973	2.3	13.5	0.3	1.8	2.0	0.2	3.4	0.0	-	0.2	0.0	-	1.0	47.6	-1.0	2.5	10.0	1.3	5.7	1.2
	1981	8.3	18.7	2.1	4.8	6.2	0.9	6.9	0.5	4.8	0.4	0.3	3.1	5.4	57.4	-5.1	9.5	14.1	8.0	12.6	1.5
Non-ferrous metals	1973	0.9	5.3	0.2	1.2	0.7	0.6	10.2	0.1	2.2	0.5	0.2	9.1	0.0	-	0.2	1.7	6.8	0.3	1.3	1.4
	1981	2.2	5.0	0.6	1.4	1.6	0.7	5.3	0.1	1.0	0.6	0.2	2.1	0.1	1.1	0.1	3.1	4.6	0.8	1.3	2.3
(2) Semi-manufactures	1973	2.4	14.1	2.0	12.3	0.4	0.6	10.2	0.8	17.4	-0.2	0.2	9.1	0.1	4.7	0.1	3.2	12.7	2.9	12.6	0.3
	1981	8.9	20.0	5.4	12.4	3.5	2.0	15.3	2.3	22.1	-0.3	1.3	13.4	0.4	4.3	0.9	12.2	18.2	8.1	12.8	4.1
Iron and steel	1973	0.4	2.4	0.4	2.5	-	0.1	1.7	0.3	6.5	-0.2	0.0	-	0.0	-	-	0.5	2.0	0.7	3.0	-0.2
	1981	1.7	3.8	0.9	2.1	0.8	0.1	0.8	1.0	9.6	-0.9	0.2	2.1	0.1	1.1	0.1	2.0	3.0	2.0	3.2	-
Chemicals	1973	0.5	2.9	1.0	6.1	-0.5	0.2	3.4	0.3	6.5	-0.1	0.1	4.5	0.0	-	0.1	0.8	3.2	1.3	5.7	-0.5
	1981	2.9	6.5	3.1	7.1	-0.2	1.1	8.4	0.9	8.7	0.2	0.5	5.2	0.1	1.1	0.4	4.5	6.7	4.1	6.5	0.4
Other semi-manufactures	1973	1.5	8.8	0.6	3.7	0.9	0.3	5.1	0.2	4.3	0.1	0.1	4.5	0.1	4.7	-	1.9	7.6	0.9	3.9	1.0
	1981	4.3	9.7	1.4	3.2	2.9	0.8	6.1	0.4	3.8	0.4	0.6	6.2	0.2	2.1	0.4	5.7	8.5	2.0	3.2	3.7
(3) Engrg. products	1973	7.1	41.8	10.9	66.9	-3.8	0.6	10.2	2.1	45.7	-1.5	0.5	22.7	0.0	-	0.5	8.2	32.7	13.0	56.5	-4.8
	1981	16.8	37.8	27.8	63.9	-11.0	1.6	12.2	5.1	49.0	-3.5	2.6	26.8	0.7	7.4	1.9	21.0	31.2	33.6	53.0	-12.6
Specialized machry.	1973	0.7	4.1	2.2	13.5	-1.5	0.1	1.7	0.5	10.9	-0.4	0.1	4.5	0.0	-	0.1	0.9	3.6	2.7	11.7	-1.8
	1981	2.4	5.4	6.4	14.7	-4.0	0.4	3.1	1.4	13.5	-1.0	0.4	4.1	0.1	1.1	0.3	3.2	4.8	7.9	12.5	-4.7

Table 2 (continued)

Commodity Group	Year	United States					Other Industrial Countries					OPEC, Other Dev. Countries, & Socialist Countries					Total Merchandise Trade				
		Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.	Exp.	%	Imp.	%	Bal.
Office & tele-comm. equipmt.	1973	0.3	1.8	0.7	4.3	-0.4	0.1	1.7	0.2	4.3	-0.1	0.1	4.5	0.0	-	0.1	0.5	2.0	0.9	3.9	-0.4
	1981	0.9	2.0	3.0	6.9	-2.1	0.3	2.3	0.3	2.9	-	0.1	1.0	0.1	1.1	-	1.3	1.9	3.4	5.4	-2.1
Road mtr vehicles	1973	4.6	27.1	4.8	29.4	-0.2	0.1	1.7	0.5	10.9	-0.4	0.1	4.5	-	-	0.1	4.8	19.1	5.3	23.0	-0.5
	1981	9.6	21.6	10.2	23.4	-0.6	0.2	1.5	1.6	15.4	-1.4	1.0	10.3	0.0	-	1.0	10.8	16.1	11.8	18.6	-1.0
Other machinery & trnsp. equipmt.	1973	1.4	8.2	2.8	17.2	-1.4	0.3	5.1	0.6	13.0	-0.3	0.2	9.1	0.0	-	0.2	1.9	7.6	3.4	14.8	-1.5
	1981	3.4	7.7	7.4	17.0	-4.0	0.6	4.6	1.1	10.6	-0.5	1.0	10.3	0.2	2.1	0.8	5.0	7.4	8.7	13.7	-3.7
Hsehld. applncs.	1973	0.1	0.6	0.4	2.5	-0.3	0.0	-	0.3	6.5	-0.3	0.0	-	0.0	-	-	0.1	0.4	0.7	3.0	-0.6
	1981	0.5	1.1	0.8	1.8	-0.3	0.1	0.8	0.7	6.7	-0.6	0.1	1.0	0.3	3.2	-0.2	0.7	1.0	1.8	2.8	-1.1
(4) Consumer goods	1973	0.4	2.4	1.2	7.4	-0.8	0.2	3.4	0.8	17.4	-0.6	0.0	-	0.4	19.0	-0.4	0.6	2.4	2.4	10.4	-1.8
	1981	0.9	2.0	2.9	6.7	-2.0	0.4	3.1	1.1	10.6	-0.7	0.2	2.1	1.5	16.0	-1.3	1.5	2.2	5.5	8.7	-4.0
Textiles	1973	0.1	0.6	0.4	2.5	-0.3	0.1	1.7	0.3	6.5	-0.2	0.0	-	0.1	4.7	-0.1	0.2	0.8	0.8	3.5	-0.6
	1981	0.1	0.2	0.8	1.8	-0.7	0.1	0.8	0.3	2.9	-0.2	0.1	1.0	0.3	3.2	-0.2	0.3	0.4	1.4	2.2	-1.1
Clothing	1973	0.1	0.6	0.1	0.6	-	0.0	-	0.1	2.2	-0.1	-	-	0.2	9.5	-0.2	0.1	0.4	0.4	1.7	-0.3
	1981	0.1	0.2	0.1	0.2	-	0.1	0.8	0.1	1.0	-	0.0	-	0.6	6.4	-0.6	0.2	0.3	0.8	1.3	-0.6
Other consumer goods	1973	0.2	1.2	0.7	4.3	-0.5	0.1	1.7	0.4	8.7	-0.3	0.0	-	0.1	4.7	-0.1	0.3	1.2	1.2	5.2	-0.9
	1981	0.7	1.6	2.0	4.6	-1.3	0.2	1.5	0.7	6.7	-0.5	0.1	1.0	0.6	6.4	-0.5	1.0	1.5	3.3	5.2	-2.3
Total mfs. (2-4)	1973	9.9	58.2	14.1	86.5	-4.2	1.4	23.7	3.7	80.4	-2.3	0.7	31.8	0.5	23.8	0.2	12.0	47.8	18.3	79.6	-6.3
	1981	26.6	59.9	36.1	83.0	-9.5	4.0	30.5	8.5	81.7	-4.5	4.1	42.3	2.6	26.6	1.5	34.7	51.6	47.2	74.4	-12.5
Total trade	1973	17.0	100	16.3	100	0.7	5.9	100	4.6	100	1.3	2.2	100	2.1	100	0.1	25.1	100	23.0	100	2.1
	1981	44.4	100	43.5	100	0.9	13.1	100	10.4	100	2.7	9.7	100	9.5	100	0.2	67.2	100	63.4	100	3.8
Area, %	1973		67.7		70.9			23.5		20.0			8.8		9.1			100		100	
	1981		66.1		68.6			19.5		16.4			14.4		15.0			100		100	

Source: Adapted from GATT, International Trade 1981/82, Table A20.

Table 3

Receipts and Payments on Merchandise Trade and Services for the United States
by Category and Area, 1973 and 1981
(Billions of U.S. Dollars)

Category	Year	Canada					Other Industrial Countries					OPEC, Other Dev. Countries, & Socialist Countries+					Total Trade				
		Rec.	%	Pay.	%	Bal.	Rec.	%	Pay.	%	Bal.	Rec.	%	Pay.	%	Bal.	Rec.	%	Pay.	%	Bal.
(1) Mdse., ex. Military	1973	15.6	77.3	17.2	86.8	-1.6	31.9	72.0	31.1	65.0	0.8	22.7*	62.4	21.5*	74.1	1.2	70.3	69.6	69.8	72.2	0.5
	1981	46.0	74.9	48.3	89.3	-2.3	95.9	63.2	96.1	64.0	-0.2	95.1	58.9	120.7*	76.0*	-25.6	237.0	63.3	265.1	73.0	-28.1
(2) Military transfers under sales contracts	1973	0.1	0.4	0.2	0.8	-0.1	0.8	1.9	3.3	6.9	-2.5	1.5*	4.0	1.2*	4.0	0.3	2.4	2.3	4.6	4.8	-2.2
	1981	0.1	0.2	0.1	0.2	0.0	3.5	2.3	7.3	4.9	-3.8	6.1*	3.8	3.6*	2.3	2.5	9.7	2.6	11.1	3.1	-1.4
(3) Travel	1973	1.1	5.3	1.2	5.8	-0.1	1.0	2.2	2.0	4.1	-1.0	1.2*	3.4	2.3*	7.8	-1.1	3.3	3.2	5.4	5.6	-2.3
	1981	2.7	4.4	2.1	3.9	0.6	3.3	2.2	3.7	2.5	-0.4	6.2*	3.8	5.7*	3.6	0.5	12.2	3.2	11.5	3.2	0.7
(4) Passngr. fares & other transp.	1973	0.4	1.8	0.3*	1.3*	0.1	2.9	6.6	3.7	7.8	-0.8	2.0*	5.4	1.9*	6.5	0.1	5.3	5.2	5.9	6.1	-0.6
	1981	0.8	1.3	0.6	1.1	0.2	8.4	5.6	10.4	6.9	-2.0	6.4*	4.0	5.8	3.7	0.6	15.6	4.2	16.9	4.6	-1.3
(5) Fees & royalties	1973	0.5	2.5	0.1	0.4	0.4	2.3	5.2	0.3	0.6	2.0	0.7*	2.0	0.0*	0.0	0.7	3.6	3.5	0.4	0.4	3.2
	1981	1.0	1.6	0.3	0.6	0.7	4.9	3.2	0.7	0.5	4.2	1.4*	0.9	-0.3*	0.2	1.7	7.3	1.9	0.7	0.2	6.6
(6) Other private/ govt. services	1973	0.3	1.3	0.3	1.3	0.0	0.8	1.8	0.7	1.5	0.1	1.2	3.2	0.9*	3.2	0.3	2.2	2.2	1.9	1.9	0.3
	1981	0.6	1.0	0.4	0.7	0.2	1.8	1.2	1.7	1.1	0.1	4.2	2.6	3.0*	1.9	1.2	6.6	1.8	5.1	1.4	1.5
(7) Invstmt. income	1973	2.3	11.4	0.7	3.4	1.6	4.6	10.3	6.8	14.1	-2.2	7.1*	19.5	1.3*	4.3	5.8	14.0	13.8	8.7	9.0	5.3
	1981	10.2	16.6	2.3	4.3	7.9	33.9	22.3	30.1	20.1	3.8	42.1*	26.1	20.3*	12.8	21.8	86.2	23.0	52.8	14.5	33.4
<u>Total services (3-7)</u>	1973	4.6	22.8	2.6	13.1	2.0	11.6	26.1	13.5	28.2	-1.9	12.2	33.5	6.4	22.4	5.8	28.4	20.1	22.3	23.1	6.1
	1981	15.3	24.9	5.7	10.5	9.6	52.3	34.5	46.6	31.1	5.7	60.3	37.3	34.5	21.7	25.8	127.9	34.1	87.0	24.0	40.9
<u>Total mdse. & services (1-7)</u>	1973	20.2	100	19.8	100	0.4	44.4	100	47.8	100	-3.4	36.4	100	29.0	100	7.4	101.0	100	96.7	100	4.3
	1981	61.4	100	54.1	100	7.3	151.7	100	150.1	100	1.6	161.5	100	158.9	100	2.6	374.6	100	363.1	100	11.5

Table 3 (continued)

Category	Year	Canada					Other Industrial Countries					OPEC, Other Dev. Countries, & Socialist Countries+					Total Trade				
		Rec.	%	Pay.	%	Bal.	Rec.	%	Pay.	%	Bal.	Rec.	%	Pay.	%	Bal.	Rec.	%	Pay.	%	Bal.
<u>Area, %</u>	1973		20.0		20.5			44.0		49.4			36.0		30.0			100		100	
	1981		16.4		14.9			40.5		41.3			43.1		43.8			100		100	

+Includes international organizations and unallocated.
*Data incomplete or not available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, <u>Survey of Current Business</u>, June 1983, pp. 39 and 60-62, and March 1975, pp. 34 and 42-45.

Table 4

Receipts and Payments on Merchandise Trade and Services for Canada
by Category and Area, 1973 and 1981
(Billions of Canadian Dollars)

Category	Year	United States					Other OECD Countries+					Other Countries					Total Trade				
		Rec.	%	Pay.	%	Bal.	Rec.	%	Pay.	%	Bal.	Rec.	%	Pay.	%	Bal.	Rec.	%	Pay.	%	Bal.
(1) Mdse.	1973	17.3	83.4	16.1	74.5	1.2	5.7	78.1	4.3	67.3	1.4	2.4	71.9	2.3	69.4	0.1	25.5	80.1	22.7	71.7	2.8
	1981	56.5	87.2	52.8	72.9	3.7	15.8	73.7	12.6	62.3	3.2	12.2	74.4	11.7	74.5	0.5	84.5	81.5	77.1	70.5	7.4
(2) Travel	1973	1.2	5.6	1.1	5.0	0.1	0.2	3.0	0.5	7.6	-0.3	0.1	2.0	0.2	5.4	-0.1	1.4	4.6	1.7	5.5	-0.3
	1981	2.5	3.8	3.2	4.4	-0.7	na	na	na	na	na	na	na	na	na	na	3.8	3.6	4.9	4.5	-1.1
(3) Freight & Shipping	1973	0.8	3.8	0.8	3.8	0.0	0.5	6.8	0.5	7.7	0.0	0.2	6.3	0.3	8.4	-0.1	1.5	4.7	1.6	5.0	-0.1
	1981	2.0	3.1	2.3	3.1	-0.3	na	na	na	na	na	na	na	na	na	na	4.3	4.1	3.9	3.5	0.4
(4) Other services	1973	0.8	3.7	1.8	8.2	-1.0	0.5	7.1	0.6	9.8	-0.1	0.2	7.1	0.2	4.7	0.0	1.5	4.8	2.6	8.1	-1.1
	1981	2.4	3.8	7.9	10.9	-5.5	na	na	na	na	na	na	na	na	na	na	6.3	6.0	12.5	11.5	-6.2
(5) Interest & Dividends	1973	0.5	2.2	1.7	7.8	-1.2	0.1	1.6	0.3	5.4	-0.2	0.2	6.3	0.0	0.4	0.2	0.8	2.5	2.1	6.5	-1.3
	1981	0.9	1.4	5.9	8.1	-5.0	na	na	na	na	na	na	na	na	na	na	1.8	1.8	8.5	7.7	-6.7
Total, ex. mdse.* (2-5)	1973	3.4	16.6	5.5	25.5	-2.1	1.6	21.9	2.1	32.7	-0.5	1.0	28.1	1.0	30.6	0.0	6.3	19.9	9.0	28.3	-2.7
	1981	8.3	12.8	19.6	27.1	-11.3	5.6	26.3	7.6	37.7	-2.0	4.2	25.6	4.0	25.5	0.2	18.2	18.5	32.3	28.5	-13.1
Total mdse. & services (1-5)	1973	20.8	100	21.6	100	-0.8	7.3	100	6.4	100	0.9	3.4	100	3.4	100	0.0	31.8	100	31.7	100	0.1
	1981	64.8	100	72.4	100	-7.6	21.5	100	20.3	100	1.2	16.3	100	15.7	100	0.6	103.7	100	109.5	100	-5.8
Area, %	1973		65.4		68.1			23.0		20.2			10.7		10.7			100		100	
	1981		62.4		66.1			20.7		18.5			15.7		14.3			100		100	

+Other OECD Countries include the U.K., other EEC, Japan, and other OECD.
*Includes total service and transfer receipts; includes statistical discrepancy.

Source: Statistics Canada, Balance of Payments Division, Quarterly Estimates of the Canadian Balance of International Payments, First Quarter 1983, pp. 35, 37, and 39, and First Quarter 1976, pp. 96, 100, 104, 108, 112, and 120.

Table 5

United States Direct Foreign Investment Position by Industry and Area,
Yearend 1973 and 1981
(Billions of U.S. Dollars)

Industry	Year	Canada					Other Industrial Countries*					OPEC, Other Developing Countries, & Socialist Countries*					Total Direct Foreign Investment				
		Abroad	%	U.S.	%	Bal.	Abroad	%	U.S.	%	Bal.	Abroad	%	U.S.	%	Bal.	Abroad	%	U.S.	%	Bal.
Mining	1973	2.7	10.4	na	na	na	1.1	2.4	na	na	na	2.3	7.8	na	na	na	6.0	6.0	na	na	na
	1981	3.4	7.2	na	na	na	1.6	1.3	na	na	na	2.5	4.2	na	na	na	7.4	3.2	na	na	na
Petroleum	1973	5.3	20.8	0.4	10.1	4.9	10.6	22.7	4.1	29.3	6.5	9.0	31.1	0.2	10.7	8.8	25.0	24.6	4.8	23.3	20.2
	1981	10.7	22.8	1.5	12.7	9.2	26.6	22.2	14.7	22.5	11.9	14.8	24.5	1.6	13.0	13.2	52.1	22.9	17.8	19.8	34.3
Mfg.	1973	11.8	46.0	2.3	55.2	9.5	24.8	53.1	4.9	35.1	19.9	7.8	26.9	1.0	42.9	6.8	44.4	43.8	8.2	40.0	36.2
	1981	19.7	41.9	5.8	47.4	13.9	53.5	44.5	20.4	31.3	33.1	19.3	32.0	3.3	26.9	16.0	92.5	40.7	29.5	32.8	63.0
Food Prdts.	1973	1.1	4.3	(b)	na	na	1.9	4.2	(b)	na	na	0.7	2.5	(b)	na	na	3.8	3.7	1.3	6.2	2.5
	1981	1.9	4.0	2.4	19.5	-0.5	4.9	4.0	2.3	3.5	2.6	2.3	3.8	0.2	1.3	2.1	9.1	4.0	4.8	5.3	4.3
Chemicals	1973	1.8	6.9	(b)	na	na	4.7	10.1	2.1	14.7	2.6	1.9	6.6	(b)	na	na	8.4	8.3	2.9	14.1	5.5
	1981	3.7	7.9	0.2	1.3	3.5	11.7	9.7	6.5	10.0	5.2	4.6	7.6	1.8	14.6	2.8	20.0	8.9	8.5	9.5	11.5
Primary & fab. mtls.	1973	0.8	3.0	(b)	na	na	1.5	3.2	(b)	na	na	0.7	2.3	(b)	na	na	3.0	2.9	1.0	4.7	2.0
	1981	1.6	3.4	1.2	9.6	0.4	3.1	2.6	2.8	4.3	0.3	1.8	3.0	0.4	2.9	1.4	6.6	2.9	4.3	4.8	2.3
Mchnry., inc. elec. & transp. eqpmt.	1973	4.6	17.9	0.5	11.3	4.1	12.2	26.0	(b)	na	na	2.6	9.0	(b)	na	na	19.4	19.1	1.4	6.6	18.0
	1981	7.3	15.5	1.0	8.5	6.3	22.9	19.1	3.5	5.4	19.4	5.8	9.6	0.1	0.7	5.7	36.1	15.9	4.6	5.2	31.5
Other mfg.	1973	3.5	13.8	0.7	16.0	2.8	4.5	9.6	1.0	6.9	3.5	1.9	6.4	0.1	3.9	1.8	9.8	9.7	1.7	8.4	8.1
	1981	5.1	10.9	1.0	8.4	4.1	10.9	9.1	5.3	8.2	5.6	4.7	7.8	0.9	7.5	3.8	20.7	9.1	7.3	8.1	13.4
Trade	1973	1.6	6.3	0.6	14.7	1.0	5.2	11.1	2.2	15.8	3.0	2.5	8.7	0.3	12.0	2.2	9.3	9.2	3.1	15.2	6.2
	1981	4.1	8.7	1.3	10.5	2.8	18.2	15.1	14.9	22.9	3.3	5.8	9.6	1.5	12.4	4.3	28.2	12.4	17.7	19.8	10.5
Banking, finance, ins. & real est.	1973	2.8	10.8	0.4	8.9	2.4	3.4	7.2	(b)	na	na	3.6	12.4	(b)	na	na	9.7	9.6	3.4	16.6	6.3
	1981	6.8	14.5	1.7	14.0	5.1	15.8	13.2	13.2	20.3	2.6	12.4	20.6	3.0	24.2	9.4	35.1	19.4	17.9	20.0	17.2
Other industries	1973	1.4	5.6	0.5	11.0	0.9	1.7	3.5	(b)	na	na	3.8	13.2	(b)	na	na	6.9	6.8	1.0	4.9	5.9
	1981	2.3	4.9	1.9	15.4	0.4	4.4	3.7	2.0	3.0	2.4	5.4	9.0	2.9	23.5	1.0	12.1	5.3	6.8	7.5	5.3
All industries	1973	25.5	100	4.2	100	21.3	46.7	100	14.1	100	32.6	29.1	100	2.3	100	26.8	101.3	100	20.6	100	80.7
	1981	47.0	100	12.2	100	34.8	120.2	100	65.1	100	55.1	60.2	100	12.4	100	47.8	227.3	100	89.8	100	137.5
Area, %	1973		25.2		20.4			46.1		68.6			28.7		11.0			100		100	
	1981		20.7		13.6			52.9		72.6			26.5		13.8			100		100	

*Includes international and other investment not identified by area.
na -- not available separately, or negligible.

(b)Suppressed to avoid disclosure of data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, August 1982, pp. 22 and 37, and U.S. Department of Commerce, Bureau of Economic Analysis, Selected Data on U.S. Direct Investment Abroad, 1950-1979, Feb. 1982, p. 24.

Table 6

Canada's Direct Foreign Investment Position by Industry and Area,
Yearend 1973 and 1978
(Billions of Canadian Dollars)

Industry	Year	United States					All Other Countries					Total Direct Foreign Investment				
		Abroad	%	Can	%	Bal.	Abroad	%	Can.	%	Bal.	Abroad	%	Can.	%	Bal.
Mng. & smelting	1973	0.3	6.6	3.1	12.0	-2.8	0.4	10.5	0.5	7.0	-0.1	0.7	8.6	3.6	11.0	-2.9
	1978	0.8	8.8	3.2	8.3	-2.4	1.0	13.2	1.1	10.6	-0.1	1.8	10.8	4.2	8.7	-2.4
Petrol. & ntl. gas	1973	0.7	17.5	6.8	25.8	-6.1	0.1	3.8	1.6	23.3	-1.5	0.8	11.0	8.3	25.3	-7.5
	1978	1.6	18.1	8.9	23.2	-7.3	0.6	8.3	2.4	24.6	-1.8	2.2	13.7	11.3	23.5	-9.1
Mfg.	1973	2.1	54.6	11.1	42.4	-9.0	1.8	45.9	2.1	31.1	-0.3	3.9	50.3	13.2	40.1	-9.3
	1978	4.6	51.6	17.6	45.9	-13.0	3.1	41.6	2.7	26.9	0.4	7.6	47.0	20.3	42.0	-12.7
Nonferrous metals	1973	0.4	11.0	1.3	4.8	-0.9	0.6	15.3	0.2	2.3	0.4	1.0	13.2	1.4	4.3	-0.4
	1978	1.4	15.9	2.0	5.3	-0.6	1.1	15.1	0.2	2.1	0.9	2.5	15.6	2.2	4.6	0.3
Wood & paper products	1973	0.6	14.2	1.9	7.4	-1.3	0.2	4.8	0.6	8.7	-0.4	0.7	9.5	2.5	7.7	-1.8
	1978	1.0	11.2	2.6	6.8	-1.6	0.4	5.9	0.6	6.1	-0.2	1.4	8.8	3.2	6.7	-1.8
Iron products	1973	0.2	5.0	4.0	15.1	-3.8	0.6	14.9	0.3	3.9	0.3	0.8	9.9	4.2	12.8	-3.4
	1978	0.3	3.2	6.3	16.5	-6.0	0.8	10.5	0.4	3.7	0.4	1.1	6.5	6.7	13.8	-5.6
Chem. & allied products	1973	0.1	2.2	1.6	6.2	-1.5	0.1	1.7	0.4	5.5	-0.3	0.2	1.9	2.0	6.1	-1.8
	1978	0.4	4.0	2.8	7.3	-2.4	0.1	1.2	0.5	5.2	-0.4	0.4	2.7	3.3	6.9	-2.9
Other mfg.*	1973	0.9	22.3	2.3	8.8	-1.4	0.4	9.2	0.7	10.7	-0.3	1.2	15.7	3.0	9.2	-1.8
	1978	1.5	17.2	3.8	10.0	-2.3	0.7	8.9	1.0	9.8	-0.3	2.2	13.4	4.8	10.0	-2.6
Merchandising	1973	0.2	4.5	1.6	6.3	-1.4	0.2	5.0	0.5	6.9	-0.3	0.4	4.7	2.1	6.4	-1.7
	1978	0.4	4.0	2.9	7.5	-2.5	0.3	3.5	0.8	8.6	-0.5	0.6	3.8	3.7	7.7	-3.1
Utilities	1973	0.4	10.9	0.5	1.8	-0.1	0.8	21.5	0.1	1.1	0.7	1.3	16.2	0.5	1.6	0.8
	1978	0.5	6.0	0.6	1.5	-0.1	1.5	20.0	0.0	0.5	1.5	2.0	12.4	0.6	1.3	1.4
Financial	1973	0.1	3.4	2.2	8.6	-2.1	0.4	11.0	1.8	26.4	-1.4	0.6	7.2	4.0	12.2	-3.4
	1978	0.8	9.3	3.7	9.6	-2.9	0.9	12.0	2.5	24.9	-1.6	1.7	10.5	6.2	12.8	-4.5
Other industries	1973	0.1	2.5	0.8	3.1	-0.7	0.1	2.3	0.3	4.1	-0.2	0.2	2.4	1.1	3.3	-0.9
	1978	0.2	2.2	1.5	4.0	-1.3	0.1	1.4	0.4	3.8	-0.3	0.3	1.8	1.9	4.0	-1.6
All industries	1973	3.9	100.0	26.1	100.0	-22.2	3.9	100.0	6.7	100.0	-2.8	7.8	100.0	32.9	100.0	-25.1
	1978	8.9	100.0	38.3	100.0	-29.4	7.4	100.0	9.9	100.0	-2.5	16.3	100.0	48.2	100.0	-31.9
Area, %	1973		50.1		79.5			49.9		20.5			100.0		100.0	
	1978		54.7		79.5			45.3		20.5			100.0		100.0	

*Includes beverages in investment abroad; includes vegetable products, animal products, textiles, and nonmetallic minerals in investment in Canada.

Source: Statistics Canada, Balance of Payments Division, Canada's International Investment Position, 1978, pp. 50, 52, 82, and 84.

Table 7

Ownership and Control of Canadian Mining and Smelting, Petroleum and Natural Gas, and Manufacturing Industries, Yearend 1977
(Percentage)

Industry	% of Capital Employed Owned in				% of Capital Employed Controlled in			
	Canada	U.S.	All Other	Total	Canada	U.S.	All Other	Total
Mining and smelting	48	40	12	100	47	40	13	100
Petroleum and natural gas	48	42	10	100	36	51	13	100
Manufacturing	52	39	9	100	46	42	12	100
Beverages	70	21	9	100	71	na	29*	100
Rubber	25	na	75*	100	1	na	99*	100
Textiles	71	23	6	100	66	24	10	100
Pulp and paper	50	39	11	100	58	31	11	100
Agricultural machinery	43	na	57*	100	42	na	58*	100
Automobiles & parts	8	na	92*	100	3	na	97*	100
Transportation equipment	62	29	9	100	53	32	15	100
Iron and steel mills	91	7	2	100	98	na	2*	100
Aluminum	48	41	11	100	na	na	na	na
Electrical apparatus	35	56	9	100	29	60	11	100
Chemicals	42	46	12	100	31	55	14	100
Other manufacturing	53	38	9	100	40	44	16	100
All industries	50	40	10	100	43	44	13	100

*Data not separately available for the U.S. in order to avoid disclosure.

Source: Statistics Canada, Balance of Payments Division, Canada's International Investment Position, 1978, p. 117.

DISCUSSANT'S REMARKS

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COMMENT ON THE PAPER BY ROBERT M. STERN

by

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I found the paper by Professor Stern to be a timely, readable, and useful summary of the trade and investment frictions between Canada and the United States over the 1960-83 period. It highlights quite naturally the NEP, FIRA, and a number of the sector specific issues which have arisen. The main topic I wish to dwell on at some length is the issue of contingent protection, and how it affects a small open economy.

Before turning to those issues however, I might add a couple of points about the the effect of the size assymmetry on the economic relations betwen the two countries. Professor Stern's papers covers a number of the important issues in this regard. Nevertheless from the Canadian perspective his paper does not convey the intensity of feelings which typically are expressed in the discussion of the impact of the United States on the Canadian economy. There is a long history in Canada of nationalistic rhetoric , or argument, depending upon one's views, as to the harmful effect the signficant degree of foreign ownership of domestic Canadian industry has on economic performance and political independence. As these views are held by a vocal and politically active group in Canada they inevitably carry

weight in economic policy discussion. The paper also contains little discussion of the effect the ongoing battle between the provinces and the federal government of Canada has on the conduct of trade policy. These two 'facts' are at the heart of Canadian political economy, and each played an important role in the early 1980's. It is also fair to say they will continue to play a role in the design and conduct of Canadian trade and investment policy; how important they will be over the rest of the decade is difficult to predict.

Turning now to the subject of contingent protection. The general use of contingent protection devices by countries throughout the industrialized world in the 1980's has been intrepreted by some observers to signal the end of the general harmonious trade relationships conducted under the auspices of G.A.T.T. and a beginning to a new and dangerous protectionist stance by many countries. Professor Stern's paper summarizes the Canadian concern over the United States use of countervailing duty legislation. The well publicized cases of potential countervail against B.C. lumber imports to the U.S. and the Bombadier sale of subway cars to New York gave many Canadian businessmen a new perspective on exporting to the U.S. market. While contingent protection devices such as countervail and anti-dumping legislation were intended as trade liberalization devices, it is conceivable they may well turn into strong protectionist measures. Definitions of what

constitutes 'unfair competition' and 'subsidy' inevitably lead to arguments incapable of resolution given the participants in the argument hold their views in an entrenched manner. The grey area which surrounds the rules and customs of contingent protection gives considerable scope for creative intrepretation of contingency legislation, and for initiative on the part of involved interest groups in implementing the procedures designed to determinethe occurence of a "contingency". The problem is that triggering the procedural mechanisms of contingency protection is a matter of <u>bureaucratic</u>, private sector, and political initiative. Given that bureaucracies function as they do the expectation is that contingencies will found to be rather prevalent. This is not a new argument. It is yet another case of the 'rules verus discretion' debate which goes on throughout the discussion of economic policy.

If contingency protection becomes a substitute for tariff protection what is the long run impact on a small open economy such as Canada? Contingency protection by its very nature means that anyone contemplating exporting faces an investment decision under uncertainty with the associated risks and rewards. The central Canadian interest in freeer trade between Canada and the United States is that Canadian producers should get access to the large U.S. market allowing them to reap economies of scale in production, distribution and marketing. Contingency protection may seriously undermine the ability of Canadian firms to do so.

Let me try to make the point in analytical terms. It is now commonplace to speak of the conditions of competition as determined by whether a market is <u>contestable</u> or not. In simple terms a market which is contestable is one which over a relatively short period there is freedom of entry and <u>exit</u>. Contestable markets are said to be subject to 'hit and run' entry. At the other extreme a non-contestable market is one where entering the market involves a relatively long lived and irreversible investment--capital committed is industry or activity specific. In the context of international competition across national boundaries it is useful to think of a firm competing from a foreign base as entering the import competing market, and to distinguish this from the market in which the domestic firms within the same industry compete. The difference between the two groups of firms comes from the differences in the nature of the investment decisions involved in selling by the two groups. In particular, it is possible that foreign firms will require a greater level of investment than that required by domestic firms to achieve the same market share, or the opposite may occur. The central distinguishing feature of the foreign market from the viewpoint of exporters I wish to emphasize is its degree of contestability. If it is contestable a foreign firm can conduct hit and run entry when profitable opportunities exist. If it is not contestable, then getting into the

foreign market requires substantial investment and, subsequent to entry, should firms find they would like to get out, it would be quite costly to do so.

It is clear that contingent protection will have quite different effects on foreign entrants depending upon whether the market as viewed by these entrants is contestable or not. If the market is contestable contingent protection should have little or no long run effect. If the market is not contestable the expectation by foreign firms of some average level of contingent protection reduces the expected return and increases the risk to entering that market. The supply of exporters will accordingly be withdrawn and import substitution will occur. To reiterate it is the contestability of the foreign market which fundamentally determines the long run effect of contingent protection.

What of the small versus large economy, and in particular of Canada versus the United States? I wish to make two points here. First, that for Canadian firms entering the U.S. markets, the act of entry involves entering a non-contestable market and therefore contingent U.S. protection will have a significant long run effect on Canadian exports. Second, that for U.S. multinationals the Canadian market is relatively more contestable than their home market, and therefore contingent protection by Canada will have relatively less effect on the long run exports by to Canada by U.S. firms than similar levels of protection in larger markets such as the E.E.C. Both of these

propositions follow from the size assymmetries of the two countries and there respective shares of the world market.

To illustrate the first proposition consider a Canadian firm trying to penetrate the U.S. market. This will inevitably involve substantial investment in marketing and distribution networks. Typically these costs will be non-recoverable should profitable entry fail, and in many cases the foreign competition will have already sunk these costs putting the Canadian entrant at a strategic disadvantage. This will not universally be the case, though; if the Canadian firm has a completely new product providing a new service , or an existing service at lower cost, then the entry barriers may be low and the exit barriers surmountable. For the Canadian entrant the costs of entering the U.S. market will usually account for a large fraction of its total costs, and the U.S. market will account for about 80 percent of the firm's total market. In the presence of contingent protection tne firm puts a substantial amount of its total resources at stake. It is difficult to imagine how implicit or explicit insurance markets could diversify this risk.

Contingent protection by Canada on the other hand would have little effect on U.S., or other large multinationals entering the Canadian market. First, the Canadian market is contestable as viewed by many of these firms in many of these industries. Horizontally and vertically diversified MNE's put little total capital at stake in any single

foreign product market because of the public good aspect such investment has with respect to all product lines of the firm in the foreign market. Furthermore investment in the form of brand image in a small country is often not required. This is particularly true in Canada where consumers are regular recipients of U.S. advertising messages. This mitigates to a significant degree entry costs of a large U.S. firm. Secondly, because the total Canadian market is such a small share of the total world market, or even the North American market, the U.S. firm entering the Canadian market would be risking at most 20 percent of total sales. In a diversified marketing portfolio the risk component attached to the Canadian market would be small. It is clear then that contingent protection by Canada against foreign firms, while it would have the obvious short run effects, would be an ineffective device for inducing long run import substitution. Related is the observation is that a great deal of Canadian imports is part of intra-firm trade by MNE's; it would be very difficult to design contingent protection mechanisms which would work effectively against these imports.

The implications of this analysis are twofold. First, in entering discussions with the U.S. about free trade on either a comprehensive, or or more limited 'sectoral' basis, Canada should seek to get assurances that contingent protection by the U.S. will not become the rule rather than the exception. This strikes me as the most difficult aspect

of negotiating a Canada-U.S. free trade pact in present circumstances for a number of reasons discussed elsewhere in this volume.

The other point, is that either with or without a Canada-U.S. free trade pact, if contingent protection becomes prevalent small ~~countries such as~~ Canada stands to lose a great deal in ~~their~~ its export marekts. Furthermore, for the small country to achieve the same degree of reciprocal protection as in the larger country would require more extensive, or intensive, use of the contingent protection devices than in the larger countries. The danger, in these circumstances, of retaliatory response by the larger country would be great. Contingent protection is clearly an ineffective instrument for a small country. Analogies of contingent protection to conventional tariff protection are not appropiate. Hopefully, both forms of protection between Canada and the United States can be reduced and avoided.

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8101C Markusen, James R. Factor Movements and Commodity Trade as Compliments: A Survey of Some Cases.

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