ANDREI D. BORODAYEVSKY

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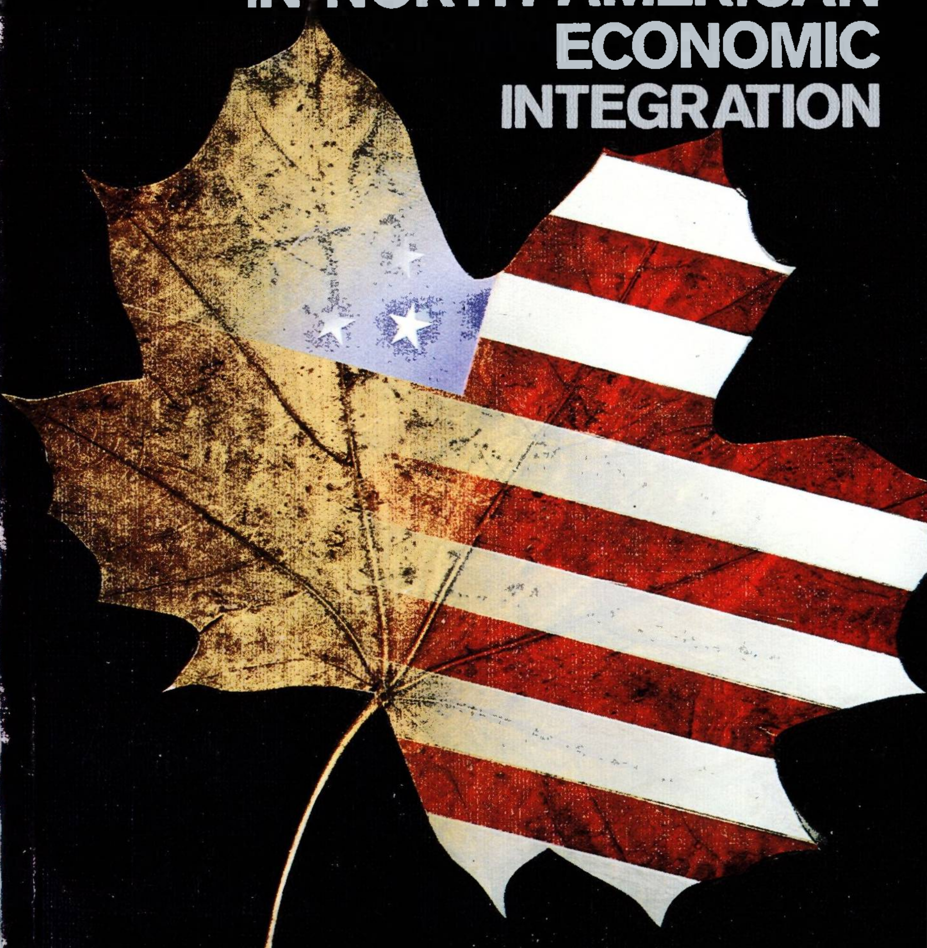
PROBLEMS AND CONTRADICTIONS IN NORTH AMERICAN ECONOMIC INTEGRATION



CANADA

The phenomenon of international socialisation of production in the form of regional economic integration occupies a highly conspicuous place in the contemporary social and economic history of capitalism. It is a most salient example of bourgeois society's need to adapt to the rapidly changing condition of the contemporary world. It also indicates the growing incongruity between capitalist relation of production, their national state organisation, on the one hand, and the new stage in the development of productive forces marked by the scientific and technological revolution, on the other.

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USA PROBLEMS AND CONTRADICTIONS IN NORTH AMERICAN ECONOMIC INTEGRATION

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INTRODUCTION

As Marxist theory sees it, imperialist integration is the highest, and largely specific, form of the internationalisation of economic life in the capitalist world. The process involves not merely states in some region drawing closer and becoming increasingly mutually dependent but also mutual penetration and interlocking of their economies, international merging of capital and fusing of national reproductive processes. The ongoing changes in national economic structures strengthen their complementary character, while the structures themselves are gradually transformed into the components of a broader economic system being integrated to eventually form an inter-state complex.

Providing incentives for intensive development of relations of specialisation and cooperation between companies of individual countries, the extension of the division of labour within regions is supplemented by increasing interlocking of national monopoly capitals. This development makes the emerging international relations stable and long-term. It is on the latter basis that profound changes occur in reciprocal trade between countries in the region, and the trade loses its purely commercial nature and increasingly serves production and technology links between separate elements of the transnational corporations and also formally independent companies (mostly on the basis of contract and subcontract relations).

The phenomenon of international socialisation of production in the form of regional economic integration occupies quite an exceptional place in the contemporary social and economic history of capitalism. It is a most salient example of bourgeois society's need to adapt to the rapidly changing conditions of the contemporary world. It also indicates the growing incongruity between capitalist relations of production, their national state organisation, on the one hand, and the new stage in the development of productive forces marked by the scientific and technological revolution, on the other.

At the same time, if integration between countries develops in a capitalist setting, it serves as a catalyst for inter-imperialist rivalry as well as, in some cases, a source of tension in political relations between states. Thus, economic integration is an effective means for consolidation of forces within the three basic imperialist centres, and it is also a source of further aggravation and globalisation of inter-imperialist contradictions which are thereby raised to a higher, one may say, intercontinental level.

The founders of Marxism-Leninism repeatedly pointed out that capital, which recognises no fatherland and is driven by irresistible profit-seeking, is by nature cosmopolitan. Capital serves as an agent and defender of national interests only to the extent that those interests conform to its own group advantage and tactical or strategic aims.

The possibility to make profitable investment abroad, the general, as Vladimir Lenin put it, "striving of finance capital to enlarge its spheres of influence"[1] serve for corporations as a motive force as strong as, say, considerations of national prestige or the idea of balancing national industrial growth. This is particularly true of the monopoly stage in capitalist development when capitalism's productive forces have significantly transcended the limits of the national state.

In our day, in a context of the historical confrontation between socialism and capitalism, the downfall of colonial domination's political foundations and indepth transformations in social production under the impact of the scientific and technological revolution, an increasingly prevailing trend is the one pointed out by Lenin for "mature" capitalism to extend relations between nations, to break down national barriers, to create an international unity of capital, of economic life in general, of politics, science, etc.[2]

It is known that integration processes are not restricted to the group of developed capitalist states in the contemporary world. Marxist theory is fully justified in describing international economic integration as a trend in world development[3]. This major assumption does not contradict the fact that there is no global integration. Different social systems—and within the capitalist system different groups of countries—are marked by different types of integration. As distinct from the broader process of economic life's internationalisation (a process that is not as deep, however), integration is possible and occurs in practice only between states belonging to one social system. It is also important to note that everywhere, at least in the non-socialist part of the world, integration processes are restricted to the regional scale.

Soviet scholars have largely contributed to the general theory of international economic integration, and also to the investigation of integration processes within specific social systems and groups of countries. For example, problems of regional integration in the group of developed capitalist countries were dealt with in the work of a rather wide range of Soviet economists and political scientists.[4] In a number of books authors have generalised the extensive experience gained by the socialist countries, members of the Council for Mutual Economic Assistance (CMEA), in cooperation and economic integration and have analysed specific integration processes in the developing world. Soviet economic literature provides a broad insight into the contemporary phase in inter-imperialist rivalry, as well as problems of the internationalisation of economic life, including issues in specialisation and cooperation of production, interlocking of capital, the activities of the transnational corporations and so forth.

The scale, basic forms, mechanism and results of integration are far from being similar in the specific historical conditions of individual regions in the capitalist world. It would seem to be appropriate to assume that several stereotypes or models of imperialist integration exist. And if the Western European model in the form of the EEC is relatively well studied, the same cannot be said about the very original integration processes going on in the North American region.

Usually, when one speaks of the economic integration tendency in the North American region, the reference is to increasing mutual penetration and interlocking of the national economies of two countries — the USA and Canada. Without disregarding the "Mexican factor" in the development of regional economic relations, Soviet researchers agree that there is still no reason to consider Mexico deeply involved in North American integration. The latter country occupies a largely specific, intermediary place in the contemporary capitalist system. Economically Mexico can hardly be regarded as belonging to the group of developing states, but it has obviously not entered the rich countries' "club". As a result of its rich natural resources and geographical nearness to the USA, the country has provided a wide field for the application of capital by the American transnationals. However, the force of attraction towards the USA arising on that basis sharply contradicts the Mexican government's policy. That government is known to oppose spontaneous integration processes and consistently implement a course aimed at strengthening national independence, rejecting any projects of a North American community with Mexico's participation. Belonging to the still few countries featuring mid-capitalist development, Mexico does not wish to find itself in one company with the strongest capitalist power of the modern world. That is why this book deals with the economic integration of two countries—the USA and Canada— while data concerning Mexico will be referred to only in certain instances for the sake of comparison.

The phenomenon of the massive presence of American private capital in Canada's economy has been reflected in a number of works by Soviet scholars in the last decades. Until recently, however, the study of the internationalisation of economic life in the North American region was done almost exclusively with the aim of showing the scale and the principal forms of US capital's penetration of Canada, revealing the extent to which the latter's economy is subservient to foreign monopolies, and showing the influence of US investments on the structure and growth rates of Canadian industry, on the rise of national monopoly capital and so on. The investigation of the integrational relationship between the USA and Canada within the interstate economic complex emerging on a regional basis has served as the subject of only one book specially devoted to the problem.[5] The reproach that the integration aspect has been neglected may also be addressed to the authors of most North American studies of Canadian-American relations. Thus, a lengthy report compiled under the direction of the Standing Senate Committee on Foreign Affairs of the Canadian Parliament and specially devoted to prospects in extending cooperation with the USA did not mention the concept of integration at all, although the authors were actively in favour of introducing free trade arrangements between the two countries.[6]

It is obvious, however, that such an approach to the study of American-Canadian relations is to some extent one-sided and hardly enables us to gain a sufficiently complete and realistic idea of the system in which national groups of finance capital interact within the North American economy in the contemporary context of the integration processes energetically progressing in the world. Apparently, the idea of functional interaction and the growing mutual dependence of the sides within the regional economic complex (which is being formed, however, on the initiative and primarily in the interests of US monopolies) more precisely reflects the specific historical moment than the more straightforward and, if we may say so, one-dimensional thesis concerning Canada's economic enslavement by and subordination to American imperialism. It is not to be denied that an analysis of the mechanism securing US monopolies prevailing positions in the North American economy, including reliable access to Canada's rich natural resources and effective linkage of that country's production to the US market, is of considerable scientific interest. But that is only one, albeit the most important, "cross-section" of the problem of North American integration. At the same time, as a multi-dimensional, heterogenic and, in many respects, contradictory phenomenon, the rise of the USA-Canada interstate economic complex requires special, where possible comprehensive, investigation.

Despite the similar objective content in terms of political economy, the regional interstate complexes emerging in the world capitalist economy are so different due to the specific historical conditions and economic characteristics of the participants, as well as the functional mechanisms, that the study of each complex within one methodological framework requires its own range of tools for an analysis of economic processes.

Let us compare the Western European region where the integration processes have been well studied and the North American region we are concerned with from that vantage point. In the former case, we are investigating a set of at least ten countries differing considerably in area, population, industrial development level and natural resources. In these circumstances, the scholar, as a rule, cannot do without a rather unwieldy set of tools to establish the fact of a definite correlation (or its absence) in the dynamics of even highly aggregated macro-economic indicators in so many, and such different, countries.

As to the North America case, we are studying the mechanism of the interlocking of the economies of only two countries—the USA and Canada. And although they differ greatly in the scale of the economy, its sectoral structure, the extent to which it is involved in international exchange, it is often easier to obtain answers to many even very complex questions than in studying processes in Western Europe. In most cases neither the construction of complex functions nor correlational analysis add anything significant to conclusions reached as a result of comparing and correctly interpreting similar indicators or their dynamic series for the two countries.[7] As to various kinds of structural parameters, i.e. all sorts of coefficients, indices and quotas calculated on the basis of comparable statistics, in studying only two countries relatively extensive opportunities open up for the application of these parameters, a fact taken advantage of in describing the specific course of integration within the USA-Canada regional complex. It is to be kept in mind that in comparing any of the two countries' indicators account was taken of the approximately ten-fold gap between them in overall scale of economic activity and many decisive parameters (such as the population size and GNP).

Let us point out some other apparently quite important methodological particularities of the present study of the rise of an integration complex in North America. Thus, while not forgetting about the USA, the author carries out the analysis mostly from the "Canadian side". It is not because the author is partial to "our neighbour across the North Pole", but due to the lucidity with which this approach enables us to show the mechanism of the two economies.

This work is also marked by heightened attention to data concerning the mutually complementary nature and mutual penetration and interlocking, on that basis, of the economies directly in the production sphere. In a number of cases such data may be obtained on the basis of structural analysis of macro-economic indicators, figures on sectoral production and relevant commodity flows, on long-term capital movement within the region and so forth. However, generalisations may be also drawn from studies on the micro-level, i.e. involving data concerning investment-production-marketing complexes of individual transnationals operating on both sides of the Canadian-American border.

Another structural and methodological particularity of this study is that critical reviews of theories and specific assumptions by Western authors on the range of problems dealt with in the work are presented as we go along. Attention is focussed both on a polemic against theoretical views contrary to the Marxist understanding of the meaning, forms, aims and consequences of economic integration under capitalism and on using all the valuable results obtained by North American scholars, principally those who belong to the progressive current in social thinking, in investigating actual processes in the regional economy, to lend weight to the conclusions and appraisals contained in the book.

The study of North American integration is based on extensive statistical material from Canada and the USA as well as both countries' press. In a number of cases, the author has critically revised data drawn from works by North American scholars, including works published in the joint series by the C.D. Howe Institute (Canada) and the National Planning Association (USA). The author was mostly interested in a description of the latest phase in the forming of the USA-Canada regional complex and, therefore, the contemporary state and prospects in the integrational system, which explains the enhanced attention to sources and publications of recent times. If not otherwise indicated, all value indicators are quoted in Canadian dollars.

In elaborating the book's theoretical part it was very useful to compare the standpoints set forth in different reports concerning the attitude to foreign capital, issues in economic and financial policy, as well as prospects in bilateral and multilateral trade liberalisation. The reports were sponsored by various ministries, agencies and public organisations in the last years of the Liberal government and after the Progressive Conservative Party headed by Brian Mulroney came to power.

The book logically falls into two large parts in the first of which regional economic integration is considered as an objective process, largely spontaneous under capitalism, the central place in which belongs in North America to massive export of American capital to Canada. The second part considers at great length the trade aspects of integration, in particular problems and prospects in further liberalisation of exchange of goods and services within the region, including the chances of a comprehensive bilateral trade agreement of an integrational nature. Certain general theoretical considerations on problems of internationalisation of economic life in the contemporary capitalist context precede the concrete analysis of the rise and functioning of the interstate economic complex in North America.

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, Progress Publishers, Moscow, 1977, p. 261.

[2] See: V. I. Lenin, "Critical Remarks on the National Question", *Collected Works*, Vol. 20, 1977, p. 27.

[3] M. M. Maximova, *Basic Problems of Imperialist Integration*, Mysl Publishers, Moscow, 1971, p. 23 (in Russian).

[4] In this connection we should mention the particular theoretical value of the above study by Maximova and also single out the book by Y. V. Shishkov, *The Rise of an Integration Complex in Western Europe: Trends and Contradictions*, (Nauka Publishers, Moscow, 1979, in Russian), the first major Soviet research papers where the category of regional economic complex was profoundly dealt with in political economic terms as applied to the capitalist economy.

[5] A. D. Borodayevsky, *USA-Canada: Regional Economic Complex*, Mysl Publishers, Moscow, 1983 (in Russian).

[6] See: *Canada-United States Relations*, Vol. II (*Canada's Trade Relations with the United States*), The Standing Senate Committee on Foreign Affairs, Ottawa, 1978.

[7] For example, the fact is confirmed in the econometric study widely known in North America, *Canadian-American Dependence* by Canadian economist R. J. Wonnacott. On the basis of matrix analysis according to the cost-output method, the author reaches conclusions concerning the nature and main spheres of mutual influence between economic growth in Canada and in the USA which virtually completely coincide with those that were reached without any mathematics and were widely circulated in the Canadian academic community in the early 1960s (R. J. Wonnacott, *Canadian-American Dependence. An Inter-Industry Analysis of Production and Prices*, Amsterdam, 1961).

Chapter One

General Theoretical Remarks Concerning the Problem of Economic Integration

In the 19th century, the industrial development of the capitalist centres had had such a strong feedback effect on the sphere of international economic relations that the world market itself acquired a new quality. The multiple system of the international division of labour arose in the course of acute rivalry between industrial powers. Britain's industrial hegemony was relegated to the past, and practically all the countries progressing along the industrial road obtained a "niche" on the world market and adopted specialisation of output both in relation to the needs of neighbouring countries and opportunities for sale in the colonial periphery. A truly world-wide market emerged, a development Lenin associated with capitalism and the spread of capitalist relations.[1]

It is the attaining of a certain maturity by capitalism in a national framework by the turn of the century and the appearance on that basis of a stable stereotype of relations between individual countries reflecting the social division of labour between them that marks the development of a world market into a world economy.

Major changes occurred primarily in trade relations between industrial capitalist centres. If before the industrial revolution European countries exported almost exclusively surplus goods produced by artisan processing of their own raw materials, now, with the emergence of international specialisation on a more productive machine basis, a major role was played by foreign raw material sources these countries possessed as a result of colonial conquests and colonial trade, and also by specifics of demand and the capacity of immediately adjacent markets. For example, France and

Holland, countries that had managed to gain possessions in Africa, Southeast Asia and other places in time, specialised in processing colonial raw materials not only for local markets but also with due account for the needs of their "dispossessed" neighbours, Germany above all.

Thus, in the process of the rise of the world economy the closest trade relations emerged primarily between countries with obviously complementary structures of the economy (chiefly raw material colonies and industrial colonial powers) and also between neighbouring countries. In the former case, the "general" division of labour between producers and consumers of raw materials, one that remains basically unaltered even today, was vividly displayed; in the latter, there was a considerable development of the division of labour of the "particular" type[2] based on specialisation in commodities (products) within sectors and aimed at gaining advantage owing to lower production costs as compared with neighbouring countries and to the territorial proximity of their markets.

The foundation on which rests the edifice of world capitalist economy is the international division of labour. The latter is most directly manifested in commodity flows and international trade. But trade, the world market and the entire range of international economic relations do not add up to the world economy, just as metabolism and all the functions providing for the vital activity of the living body do not add up to the body itself.

In addition to world trade, the interaction between national economies and individual production units constituting the "flesh and blood" of the world economic body is secured by international movement of capital, the labour force and other factors of production. Karl Marx wrote: "The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country... All old-established national industries have been destroyed or are daily being destroyed."[3] The internationalisation of capital which goes hand in hand with the internationalisation of production itself, and the rise of the latter's directly international variety, plays a particularly important part.

From the early 20th century on, the principal form in which the world-wide tendency towards internationalisation of economic life was manifested was the export of capital from the imperialist centres to the periphery which as a result received a powerful impulse for development along the capitalist road. The export of capital in entrepreneurial form was increasingly frequently accompanied by the development of the monopolies' foreign production apparatus, the building of new factories, mines, etc. introduced into the system of division of labour within the company as its integral part. Similarly, the international capitalist division of labour of the "general" and the "particular" types was often supplemented by specialisation and cooperation (by parts or by individual operations) within the directly international production complexes of the monopolies (division of labour "in singular" developed beyond national boundaries). Vladimir Lenin believed that a very important feature of capitalism in its highest stage of development was the "so-called *combination* of production, that is to say, the grouping in a single enterprise of different branches of industry". The individual links in the international production complexes arising in this way are either "the consecutive stages in the processing of raw materials" or are "auxiliary to one another."[4] Thus, vertical-integration trusts and concerns of the carly 20th century in many respects anticipated the production and organisation structure of modern transnational corporations.

The sphere of international trade has also undergone profound change in the transition to imperialism. The monopolisation of domestic and world commodity markets inevitably led to the appearance of international cartels which Lenin regarded as "one of the most striking expressions of the internationalisation of capital". The world market was divided among the rivals, yet the rivalry remained because an acute struggle immediately began for its redivision "in proportion to capital" and "in proportion to strength."[5]

Capitalism's advent to the monopoly stage marked the world market's final development into the world capitalist economy. The internationalisation of market exchange was supplemented by the internationalisation of capital on the basis of its energetic export from the "overripe" industrial centres. Lenin was well aware of the close relationship between the export of capital and internationalisation of production. Warning that merging and migration of capital from different countries should not be regarded as mere "interlocking", he pointed out the underlying process of international "socialisation of production" itself.[6]

As to the postwar period, the main factor causing serious changes in the conditions of monopoly competition and strengthening the role of stable long-term trade relations and an energetic exchange of capital between industrially developed powers has undoubtedly been the intensive advance of the scientific and technological revolution.

The Scientific and Technological Revolution and the Tendency Towards the Emergence of Directly International Production

In the last three or four decades competition on the domestic markets of the capitalist countries and in world trade has acquired particular acuteness, the terms of that competition have changed significantly, and so have the participants. The irreversible process of the fall of the colonial empires altered the problem of securing foreign markets, reliable sources of raw materials and profitable spheres for application of capital for the former colonial powers. The energy crisis that shook the West during most of the 1970s marked the beginning of the breakdown of the system of unequal relations between the imperialist centres and the neocolonial periphery of the capitalist world. In its turn the growing conflict between the "industrial North" and the "agrarian South" provided fresh impulses for the expansion and deepening of the international division of labour among the industrially developed capitalist states. Therein lay one of the important sources of the stepped-up growth of their mutual commodity exchange whose growth rates were considerably higher than expansion of world trade as a whole. This factor also contributed to the spreading of new long-term forms of international economic relations in the given group of states, advancing the aspect of reliability to the forefront and increasing demands for stable and uninterrupted supply.

Unprecedented in scope, rates and depth, the qualitative surge forward in the development of productive forces emerging in the first postwar decades opened up new opportunities for structural improvement of the capitalist economy and a rise in efficiency and was accompanied by major changes in that economy's inner mechanism and organisational structure. Thus, the abrupt increase in the optimal size of enterprises and possibilities for choice of technology virtually in all the manufacturing industries provided a fresh impulse for concentration of production and centralisation of capital and development of cooperation links, including international ones. This was also the reason for the new scale and forms of financial resource mobilisation for industrial construction, renewal of plant, introduction of new technology and improvement of the infrastructure, organisation of research and many other kinds of long-term investments.

Wide application of assembly lines and continuous production processes contributed to the spreading of large-batch mass production. This, in turn, required much larger, truly mass markets and largely complicated the problem of product sale for most companies.

As a result, functioning private capital and virtually all industrial companies were faced by a choice: either to stick to conservative forms and methods of production, outdated technologies and product range, risking to lose their products' competitiveness and relying mostly on protectionist government policies, or to find financial and material resources at any cost, energetically introduce the latest achievements in science and technology, attaining high technical and economic standards of output and relatively stable sale of a considerable part of the commodity mass on foreign markets. The advanced companies in most countries (virtually regardless of the capacity of the domestic market) sooner or later chose the latter way, a more difficult one but more promising.

Involving major investments in production expansion and modernisation, in research and new technology and also a greater role of marketing and export services, the latter way made it necessary as a rule to establish broad international relations along several lines. The organisation of contemporary large-scale production is organically interrelated with the development of specialisation and cooperation, increasingly often by enlisting foreign partners. The problem of attracting financial resources for major projects is also solved with increasing frequency by drawing on foreign sources, which is accompanied by transfer of stock, setting up of joint-stock companies and other forms of international interlocking of capital. Many companies use foreign achievements in science and technology, purchasing licences, complete plant and technology and inviting foreign experts and consultants. All this leads to the establishment of close production links, and occasionally to the uniting of separate spheres of activity by collaborating companies. Finally, monopolies have to either set up their own sales facilities abroad or resort to the services of local trade and agent companies in different countries, or else set up joint sales companies. All company activities are marked by the desire to transcend national frontiers, because that is the only possibility to launch large-scale specialised production. The international relations that arise under this stereotype are stable and long-term by nature—whether on the basis of specialisation and cooperation, internationl interlocking of capital, scientific and technical collaboration or development of foreign sales networks and financial services.

All the above also holds for trade and supply practices of monopolies in the basic manufacturing industries such as steel, non-ferrous metals, chemicals, petroleum refining and pulp and paper. In our day such industries increasingly rely on mass-scale deliveries of raw materials from foreign sources. Sophisticated modern technology, continuous production processes, high rates and stringent demands made on the quality of raw materials explain the need for many companies to conclude long-term contracts and other forms securing stable technological relations with suppliers—foreign companies or their own subsidiaries abroad.

As a source of extremely dynamic and deep-going structural changes, the scientific and technological revolution thus insistently forces national economies to interact more and more actively within the frame of the world capitalist economy. It contributes to the intensification of international economic relations, above all within the group of industrially developed capitalist countries, creates powerful incentives for the further advance of the international division of labour, and opens up new, broad horizons for the process. And if scholars like to speak of the division of labour being inexhaustible even in respect to the economy of a separate country with its limited natural resources and production capacity, how much more justified the appraisal is for the sphere of international economic relations whether on a regional or on a world capitalist basis!

Processes of international specialisation and cooperation involving the above-mentioned principles of "general", "particular" and "singular" division of labour are equally inexhaustible. It is indisputable that in a context of the scientific and technological revolution the advance of these processes both in a functional and a spatial dimension has been stepped up sharply, they have acquired new meaning, the mechanism of their interaction has been developed and improved (in which the international division of labour is extended and deepened in practice), and organisational forms become more extensive and varied. Works by Soviet economists touching upon the question point out, for example, "the transition from international specialisation by product to such specialisation by part",[7] the appearance and development of "production-technology complexes within and between industries connected through specialisation and cooperation by part and by individual operation"[8] and also the fact that exchange within companies of product components has acquired an international character.

However, division of labour within industries, even if it is on an international scale, can hardly be regarded as something completely new, associated exclusively with the scientific and technological revolution. Specialisation by commodity (product) developed practically during the whole industrial age in the course of the spreading of large-scale machine industry together with the evolution of the sectoral structure of production. At the same time, the extension of division of labour "in singular" beyond the individual enterprise, whether within the national production complex or the ramified structure of the modern international monopoly, is indeed a fundamentally new feature marking a qualitative change in the development of social production and the entire system of international economic relations. The present international division of labour by part and by operation is the highest stage in its development so far; it leads to close interlocking and active mutual influence of national economies. It should be kept in mind, however, that at the beginning of the century Vladimir Lenin wrote about the tendency for the developed commodity economy "to transform into a special branch of industry the making not only of each separate product, but even of each separate part of a product — and not only the making of a product, but even the separate operations of preparing the product for consumption".[9]

Considered from the vantage point of profound political economic meaning, the development of the international division of labour simultaneously stands out as an equally large-scale and important process of the international socialisation of production. In such an approach, an analysis of the scale and forms of production concentration, and concentration and centralisation of capital within the international framework, comes to the forefront. And at the same time, all this reflects the internationalisation of economic life and more specifically, the internationalisation of market exchange, capital, production, technology, research, etc.

A lot of new things are happening in the sphere of international trade today, and the most remarkable of the stable changes that have occurred in the last decades was, it would seem, the relative fall in the role of usual commercial trade as compared with commodity turnover serving stable technological (production) relations inside the company or on the basis of long-term cooperation and contract relation. Marx's keen observation that "it is not commerce which revolutionises industry, but industry which constantly revolutionises commerce"[10] has been confirmed. At the same time, as distinct from cartels of the end of the last century, contemporary cartel agreements are not a precondition but a result of domination by trusts and concerns.

The most important result of all these manifestations of the growing tendency towards internationalisation of market exchange, production and capital is directly international production by modern large-scale industrial monopolies and the monopolies themselves—whether in the form of transnational corporations or multinational firms arising as a result of the merging of functioning capital belonging to two or several countries.

Until now we have dealt mostly with changes in the international division of labour within the group of developed capitalist countries. According to some estimates, up to 75 per cent of what is known as international production based on foreign investments, and specialisation and cooperation inside companies is located in these countries. The relevant output has in recent years exceeded the scale of world capitalist export. It is to be noted that in some instances stable technological relations securing the functioning of international production are established without the participation of the parent monopoly in the capital of the smaller foreign companies involved in specialisation. The contract and subcontract relations established instead of such participation draw the junior partners into the sphere of influence of the monopoly, make them dependent in technology on the coordinating company, but guarantee a sufficiently profitable sale of an amount of specialised output known in advance, which explains their interest in such a symbiosis.

A lot of new things are also happening in the division of labour along the North-South direction. The only thing that remains the same is the unequal character of the developing countries' participation in world economic relations within the capitalist system. Of course, they increasingly enjoy the technological benefits of Western civilisation, join the structure of relations renewed by the scientific and technological revolution, but still as junior, exploited partners.

The new pattern of interaction between the two groups of states clamoured about in the bourgeois press boils down to the fact that pure agrarian and raw material specialisation of most developing countries has been supplemented by the transfer to these countries of functions in supplying the industrial centres with "rough" (material- and labour-intensive) output of the manufacturing industries based on traditional technologies and relatively simple in terms of quality and range, and often involving considerable ecological damage to the countries to which the relevant production is being transferred. The industrial powers leave the science-intensive specialisation for themselves, securing dominating positions in the entire system of the international capitalist division of labour.

Linked with foreign monopolies by contract or in other ways the national industrial companies play the role of dependent auxiliary elements in the technological "string" created by the transnationals, fulfilling necessary but simple or auxiliary operations and receiving modest profits. The industrialisation the developing countries desire so strongly is gaining ground, but the technological gap, the lagging behind the "industrial North", continue to grow.

The example of the "new industrial states" such as Brazil, Argentina, Mexico and some countries and territories in Southeast Asia and the Pacific region shows what a hard and thorny road leads to the capitalist "industrial club" and how far even the leaders of the developing world are from full membership in that club.

Not at all restricted to the developed part of the capitalist world, internationalisation of economic life does not yield the same, or even comparable, effect for all the countries taking part in it. Capitalist internationalisation knows its "favourites" and its "stepchildren".

Migration of Capital: Catalyst for Internationalisation of Production

No doubt, if internationalisation of production develops, it cannot but exert a strong feedback effect on the international movement of capital, stepping it up tremendously. It is also indisputable that the export of capital in the form of direct investments particularly contributes to production becoming international.[11] It is important as well to point out that, originally a phenomenon resulting from the relative surplus of capital in the imperialist centres, the export of long-term capital in our day has turned into a powerful means for advancing international socialisation of production and moving it beyond the bounds of the national state that have become too narrow.

The above is particularly obvious from the fact that in the last decades differences have been virtually erased in the group of developed capitalist states between countries exporting capital and those importing it. Instead of the flow of capital in one direction, from the USA to Western Europe, for example, capital now migrates intensely in both directions. As a result, direct foreign investments by Western European countries in 1978 (158,100 million US dollars) considerably exceeded direct foreign investments in the region (133,800 million US dollars). Direct American investments abroad (168,100 million US dollars), however, were four times greater in 1978 than the total direct investments by all the developed capitalist countries in the USA, which indicates the particularly active and large-scale role played by American monopolies in developing international industrial business, while for Japan the gap was 12-fold

(26,800 million and 2,200 million US dollars respectively).[1 2]

Traditionally the principal foreign investors, the developed capitalist countries have now become the main field for application of foreign capital in the context of the scientific and technological revolution. In the current export of capital by the industrial capitalist states, all the developing countries of Asia, Africa and Latin America put together received on an average only 30 to 33 per cent of total new direct investments in the 1970s. About a third of the foreign direct investments accumulated in the developing world belonged to Western European investors and about 60 per cent to American investors. The following factors oppose the tendency for international investors to direct excessive efforts to the developed regions of the capitalist world: instability, recessions in their economies, as well as the still acute energy situation and the rise of the above-mentioned system of the new international division of labour providing for a considerable increase of foreign investments in the manufacturing industry of the developing states.

Soviet researchers agree that foreign investment provides a stronger and more stable basis for the international interaction of national economies than traditional market relations, although the latter also acquire a new quality, a formerly absent stability, at the present high stage in the internationalisation of economic life.

The international industrial monopolies in the form of transnational corporations are the owners of an overwhelming majority of direct foreign investments accumulated by the developed capitalist countries in each other's economies and in the developing world. These corporations are distinguished by the existence of large assets abroad emerging on the basis of export of capital in the form of direct investments, and also, as a rule, by a high share of output sold on foreign markets. There are many more such monopolies than multinational corporations formed as a result of the merging of capitals belonging to different nations (Royal Dutch-Shell, Dunlop-Pirelli, Agfa-Gevaert and others).

The latest report published by the UN, *Transnational Corporations in World Development*, contains data on 382 international industrial monopolies, among which American ones prevail. The total turnover (sales) of the largest 20 transnationals (12 of them were American) constituted nearly 800 billion US dollars in 1980, and of the top 50 companies more than, 1,250 billion.[13] According to various estimates, international monopolies control from one quarter to one third of the gross national product in the capitalist world, from three fifths to two thirds of the export and over nine tenths of direct foreign investments by developed capitalist states. In our day, foreign output produced by the transnationals has considerably exceeded world capitalist export, and the production capacity of the subsidiaries of American transnationals is 4 to 5 times greater than commodity export directly from the USA. Almost a third of all mutual trade between industrially developed countries takes on the form of deliveries inside a few hundred trans- and multinational corporations.

The turning of the transnationals into full-fledged participants in international economic relations, often comparable with whole states in power, has been accompanied by profound structural changes in world commodity flows. It is the emergence of powerful production facilities belonging to the transnationals abroad and the establishment of stable cooperation links between separate international parts of the production process that led, for example, to the fact that about a third of all capitalist import and up to three fifths of the trade in machinery and equipment consist of intermediate output (product components).[14] In confirmation we may refer to an estimate made by the prominent Canadian researcher Wallace Clement according to which up to three fourths of the foreign trade turnover of the foreign companies in Canada falls to intracompany exchange.[15]

Seeking higher profits the monopolies resolutely transcend national boundaries, building their production and sales strategy with due account for natural and labour resources and markets virtually throughout the capitalist world. Answers to questionnaires sent to companies show that in extending their production activity abroad about two thirds of the companies intended to strengthen and widen their market positions, and also gain access to cheaper manpower than "at home". As a rule, 30 to 40 per cent of the companies refer to savings on transport costs, associate foreign investments with the possibility of avoiding tariff and non-tariff trade barriers, and the desire to avoid losses due to fluctuations of currency rates. Finally, 5 to 15 per cent of the companies regard such factors as lower taxes, cheap land, lower expenditures on measures for environmental protection and the like as incentives for investing abroad.[16] In any case, according to some estimates, in transnational corporations the surplus-value rate and profit rate prove to be practically twice as high as in corporations without foreign branches and subsidiaries.[17]

The organisational structure of monopolies is often formed depending on the way in which they obtain foreign production and technological links. The bosses of the transnational usually seek to combine in an optimal way centralised management of the concern as a single whole with utmost freedom of action locally. Undoubtedly, management of their own affiliates and subsidiaries abroad is carried on much more rigidly than of branch plants with participation of local capital. But the advantages offered by the parent company to its foreign partners in industrial cooperation in whose capital it does not have a decisive share are much less. There is usually not enough scope in relations with such partners for using transfer prices enabling costs and other indicators to be calculated in individual countries so as to minimise taxes, stimulate certain trends in growth, research and development, and so on. By means of transfer prices, for example, activities carried on by certain enterprises belonging to an international diversified concern may be financed from profits obtained in other production units.[18] Of course, such deals are more successful when foreign partners of cooperation are under the financial control of the parent coordinating company.

On the whole, most modern transnationals display a clear trend for more rapid growth of foreign assets, production capacities and sales as compared with the expansion of the parent company's activities "at home" as well as the growth of its export directly from the country it is based in. This trend, however, is more typical of American and Japanese transnationals than of Western European ones, apparently a result of the influence of the European Economic Community.

The spreading of the phenomenon of the transnational, a child of the scientific and technological revolution, signified a serious change in the monopoly structure of bourgeois society and opened up one of the most important trends in the latest evolution of capitalism's relations of production.

Internationalisation of Economic Life and Integration: the General and the Specific

It was shown above that in a context of scientific and technological revolution, internationalisation of economic life increasingly acquires a universal, truly global nature. Although within the capitalist system the main field in which the process develops are the relations between private capital of the industrialised powers, internationalisation is also to be seen in the sphere of economic relations between the imperialist countries and the developing states. Here, it often results from the active penetration of the latter states' economies by the capital of the modern neocolonialists.

At the same time, the extent and rates of internationalisation of production and capital are not at all similar in separate parts or subsystems of the capitalist world. In the overall picture of the spontaneous development of international links on the level of private capital, several major regions have become outlined sufficiently clearly: the most lively flow of goods, investment resources, new technology and know-how is observed inside these regions and between them.

First, there is Western Europe where major avenues of international relations lie between states on the continent and between the continent and the British Isles. The second region has clearly emerged in North America where an increasingly dense fabric of international exchange links the economic potentials of the USA and Canada. West Europe and North America together form an enormous, although rather amorphous, Atlantic superregion. Finally, there is more and more reason to talk about the rise of a special economic region in the Pacific where lines of intensive economic exchange fan out linking another centre of modern imperialism—Japan—with its neighbours across the ocean—the USA, Canada and Australia. Thus, the most outstanding examples of the process of economic life's internationalisation are concentrated in specific regions of the capitalist world and along definite highroads of interregional exchange.

It is to be recalled that in the early stages the development of international economic relations was effected mostly on the basis of the division of labour between producers and consumers of raw materials or in view of the geographical proximity of industrial centres in different countries. Today the effect of traditional structural-spatial factors of economic regionalism is largely neutralised by new processes engendered by the scientific and technological revolution. In particular, an important motive is the already mentioned desire of the companies to improve technical and economic production standards and raise their output's competitiveness by deepening specialisation and extending cooperation links on the broadest possible international basis. This opens the way for internationalisation of production and capital for countries with similar economic structures—virtually irrespective of whether they belong to one or different economic regions—and broadens the limits of their complementary efforts and, thereby, the possibility of deepening "particular" and "singular" division of labour between them. At the same time a revolution has occurred in transport in recent years (the appearance of supertankers and large cargo ships, container deliveries and so on) weakening restrictions having to do with distances and transportation costs.

Thus, the effect of many technical and economic factors preventing the development of relations between regions has been gradually weakening, at least in the industrial part of the capitalist world. That, however, does not mean that the tendency towards regionalisation of the world capitalist economy is losing momentum. Moreover, the tendency is even growing stronger as a result of the aggravation of competition on world commodity markets, under the impact of the energy crisis and in a context of fierce rivalry between the three centres of modern imperialism.

There is a certain "changing of landmarks": internationalisation of economic life is becoming a universal phenomenon, while processes of the drawing closer of countries on a regional basis have acquired a new specific form—the form of economic integration. Growing on the foundation of the internationalisation of production and capital as its highest but very specific and transformed form, regional integration represents a definite dialectic negation of the global nature of that process reflecting a tendency to limit it to a group of states. It is in this sense (and only in this sense!) that integration is opposite to usual, pre-integration forms of internationalisation, since it involves a qualitative change as a result of which relatively large economic areas stand out in the world capitalist economy acquiring a whole, integrated inner structure in many respects and, with it, the special quality of an international (interstate) economic complex. When objectively-derived integrational processes at the level of private monopoly capital are supplemented by elements of economic-political integration, the rise and "cementing" of such complexes is accompanied by the establishment of special conditions within them, the emergence of their own institutional structure and, thereby, of a specific economic climate under joint legal, regulative and other measures on an interstate (and subsequently, perhaps, on a supranational) basis.

It is possible to discern certain important general features inherent in regional integration developing on the basis of capitalist relations of production. As we see it, the following features should be singled out. Integration grows out of the internationalisation of economic life as its highest, transformed form; therefore, it is an objectively derived and, apparently, practically irreversible process. It is of a complex nature, proceeding at several levels, in different functional spheres and forms, combining elements of spontaneity with deliberately regulated state activities. Occurring mostly within an economic basis which it actively restructures, that process at the same time acquires a political colouring involving a number of legal and other elements of the superstructure and may be accompanied by restriction of the national sovereignty of the countries taking part in integration. The drawing closer and growing mutual dependence of states in a given region, arising in the course of the internationalisation of economic life, develop during the integration stage into mutual penetration leading to the interlocking and merging of national reproduction processes. The progressive transformation of national economic structures that occurs increases their mutually complementary nature, while the structures themselves gradually change into the elements of a broader economic system, becoming integrated in the "hyperstructure" of the regional interstate complex. An important feature of imperialist integration is that far advanced monopoly concentration and centralisation of capital and production, and international interlocking of separate national groups of finance capital serve as the direct economic basis of that integration. Finally, it is necessary to point out that not only the first and the third phases of the turnover of social capital belonging to the countries taking part in intergration (phases occurring in the circulation sphere) are internationalised and integrated within the regional complex but also its second, central phase, production itself, the actual process of the creation of the commodity, i.e. "the intertwining of the turnover of aggregate national capital as a whole"[19] takes place.

This is where the principal line separating integration from pre-integrational forms of the internationalisation of economic life lies. Individual components of the complex integration process, particularly in the sphere of economic activity and decision-making by private companies, may be not different from manifestations of internationalisation of production and capital in other parts of the capitalist world. The whole question is whether these components are synthesised into a new, integrational quality, whether they provide for the emergence of a regional "hyperstructure", whether national reproduction processes interlock as "separate phases of a process".[20]

The integration system is indeed formed out of individual integration processes known as "partial integration", but in itself, taken separately, each such process, each part is still not integration. Only in their totality, in their synthesis are they capable of producing a fundamentally new state of the regional economy—an integration system in the form of an interstate economic complex which is not identical to the simple sum of the national economies.

In the course of the internationalisation of economic life the decisive part is played by factors connected to the general needs of the development of productive forces, and in the choice of actual forms of international collaboration a great deal depends on the nature of the participating countries' social system, whereas in the rise and development of integration an enormous, often decisive significance is taken on by the specific history of the countries and the region itself. Each of the regions in the capitalist world involved in integrational processes has its "set" of general and specific factors under whose immediate impact the tendency towards integration is manifested. This is why such processes develop specifically in individual regions and the elements ("partial integration") are related in different ways, i.e. the edifice of an interstate economic complex is custom-tailored out of differing "building materials". If it is taken into account that not one of these edifices has been completed yet, integration as it is observed under modern conditions represents the process of "building" rather than the end result. But even in their completed form, the edifices of integration complexes may differ considerably from each other by the range of parts and their relationship, "internal layout", "finishing materials" and the like.

It is obvious, for example, and this will be quite clearly demonstrated below, that the EEC economic system and the emerging USA-Canada regional economic complex have largely differing mechanisms. While in the case of the EEC joint legislative and regulating activities by the states concerned were the initial point and still remain an inalienable part of the emerging integration system, in North America, where perhaps even greater mutual penetration and interlocking of the national economies of two major industrially developed capitalist countries has been achieved than in the EEC region, the instruments of economic-political integration have hardly been used until now and the integration-oriented initiative actually comes from private business. Moreover, in the latter case activities by national states are often directed precisely at squashing that initiative and unilaterally controlling the integration process to prevent spontaneous and showballing development of events.

Be that as it may, any variant of regional integration occurs in two interrelated but still different layers: at the level of separate capitalist companies which in their everyday economic activity objectively implement private monopoly integration and at the level of relations between states when the regulating and supervisory (unilateral or joint) activities carried on by government bodies clear the way for international interlocking of production and capital within a certain group of countries or secure the functioning of special integrational instruments thereby implementing state-monopoly integration.

At this point it should be stressed once again that economic integration is a typical product of dialectic development in the course of which the strengthening of some features and properties of the initial phenomenon is accompanied by the weakening or total disappearance of others, resulting in the emergence of a new quality. Just as integration results not simply in the adding up of economic structures but in the rise of a new structure, a new economic entity with its properties and specific features, the transformation of the internationalisation of economic life into integration gives rise to the tendency towards narrowing of geographical limits within which the process occurs while the intensity and depth of the process increase considerably. That is why imperialist integration has a clearly regional nature. It is also important that its state-monopoly instruments help secure and consolidate interlocking and even merging of the relevant countries' economic structures.

In order to better understand and graphically imagine the specifics of integration as a transformed and "condensed" form of the internationalisation of economic life, it is appropriate to resort to another analogy. Let us imagine a vessel with a saturated solution of some substance; only as distinct from a real solution, the density is not the same in different parts of the vessel. In one of these parts, where density is particularly high, quantity turns abruptly into quality and a crystal begins to be formed. Although the change into another physical state is incomplete and the crystal's bounds are amorphous, it differs significantly from the surrounding solution. The crystal and the solution are one and the same substance, and an exchange of molecules even takes place between them, yet they differ from each other in physical state and certain properties.

The analogy is tentative, but the model we obtain closely resembles real processes in the world economy. Indeed, internationalisation of economic life and integration are of one "substance" and possess many common manifestations. As something specific, integration may be singled out by the "crystal lattice" forming the inner structure of the crystal and absent in the surrounding solution. The reference is to the functional interlocking of national reproduction processes and the directly international regional production arising on that basis. It is integration of the production sphere which lends economic relations within the region particular stability and, in a certain sense, makes them irreversible. Additional strength is lent to the "lattice" (in the case of the EEC, for example) by the existence of developed interstate integration instruments capable of preserving the "crystal" state of the substance and its increasing alienation from the surrounding "solution".

In any case the chief constituent feature of the integration complex is, thus, socialisation of the central phase in the turnover of capital on the basis of regional internationalisation of production leading to the stable interlocking of national reproduction processes. The network of varied stable relations between individual elements in the national economies becomes so thick and dense that a fundamentally new phenomenon emerges—functional-structural interdependence of these economies within the framework of a broader system—the regional integration complex. Thereby, in the integration process "production, technical, economic and legal-political interdependence of national economies develops into mutual penetration and interlocking of the national processes of social reproduction".[21]

Thus, it is the underlying phenomenon of the interlocking of national reproduction processes on the basis of deepening division of labour in the region which the exchange of commodities reflects and services, rather than the large-scale, intensive and stable trade exchange between two or several neighbouring countries in the region, that expresses the essential meaning of their economic convergence and growing mutual dependence within the emerging integration complex.

It would seem that among the other features of the rise of an integrated economic system the most important is interlocking of private monopoly capital within the region in the form of international industrial corporations locating the principal elements of their investment and sales complexes on the territory of the countries subject to integration (which is highly characteristic, in particular, of the North American transnationals). Indeed, the existence in some region of a ramified production apparatus owned by the numerous "local" transnationals, i.e. companies mostly representing the capital of a particular country in the region, inevitably indicates that the countries belonging to it are going through an extremely high stage in economic interaction—the integration stage.

As a rule, the interlocking of national economic mechanisms (also chiefly at a private monopoly level) is also expressed in the rise of a common regional market of loan capital, the chief precondition for which is free exchange of the national currencies between the countries being integrated, and its most obvious manifestation is a high degree of correlation in the interest rates and other indices of the monetary market.

As to unification of the economic policies pursued by several states, particularly in the form of resorting to common instruments of economic regulation or the setting up of specific institutions and organisations with "integrational" functions of a general economic, foreign trade or sectoral nature, their existence or absence does not, as we see it, serve as a sufficiently reliable criterion to decide whether an integration complex with two or more countries taking part is being formed in the region or it is internationalisation of regional economic life in its usual, pre-integration forms.

Finally, it is necessary to point out that in the modern capitalist world processes of the internationalisation of economic life in its highest (integration) and conventional (pre-integration) forms develop simultaneously, and in many respects parallel to each other; occurring in different countries and groups of countries these processes intertwine with each other. In regions involved in integration, such as Western Europe and North America, interference by "third parties" gives rise to particularly quaint combinations of local and external factors which together determine the nature, forms and trends in the development of the regional economy. Thus, the rise of an interstate economic complex in the EEC all these decades has been accompanied by the rapid development of the American (and subsequently Japanese) monopolies' European business. It was an understanding of the importance of the latter fact that gave rise to the sensational statement by the French journalist Servan-Schreiber that it was possible that the world's third greatest industrial power, after the USA and the USSR, "will not be Europe, but *American industry in Europe*".[22] It is to be noted that in North America, too, integration is unable to secure the emergence of a closed, purely regional interstate economic complex.

Whether on a regional basis or in the overall system of the world capitalist economy, internationalisation of market exchange, production and capital solves certain problems facing private business while inevitably giving rise to other, often equally difficult ones. It serves as a source of acute contradictions both within individual countries and in the sphere of interstate relations. Suffice it to point out that in working out their financial, production and sales policies transnational corporations pursue their own business interests which do not necessarily coincide either with the interests of the states where their subsidiaries are located or the interests of their own countries.[23]

The destabilising, contradictory influence of the transnationals on the capitalist economy is clearly shown in the following statement by T. Ya. Belous: "The transfer of part of the international monopolies' production capacity outside national boundaries by means of capital flow, on the one hand, gives rise to relations of dependence and subordination in the capitalist world and consolidates these relations and, on the other, engenders new contradictions and introduces additional elements of instability into the structure of the world capitalist economy. There are growing clashes between monopolies and collisions within companies."[24]

The appearance of multisectoral, diversified production and sales complexes of transnationals whose individual branches are often scattered throughout the world extremely exacerbates the contradiction between the growing organisation and planning of economic activity within the monopolies and the increasing instability, unpredictability and anarchy of economic processes in the world capitalist economy (the latter development often largely due to the monopolies). "One of the causes of the difficulties facing capitalist countries," writes M. M. Maximova, for example, "lies in the enormous gap between the extent of the internationalisation of economic life attained and the still largely spontaneous character of the international capitalist division of labour, international migration of commodities, capital, labour power and so on".[25]

Internationalisation of economic life weakens the immunity possessed by individual national economies against external influences, contributes to the spreading of crises and inflation from one country to another, and the greatest losses are suffered, as a rule, by the already weak participants in international economic relations. The mutual influence of partners in regional integration is particularly strong, of course. "When the American economy gets a cold, ours goes to hospital," Canadians joke sadly.

Neither has it turned out to be possible to overcome the spontaneity and anarchy in world economic processes by increasingly frequent searches for means of coordinated, collective influence on them by the industrial capitalist powers. "Despite attempts at transnational regulation, the world capitalist economy remains an anarchic and unmanageable system," write M. K. Bunkina and V. V. Motylev.[26] For example, in the EEC the internationalisation of state economic policy-making decisions, including long-term decisions, implemented on the basis of programming turned into the "planning of anarchy".

It is also necessary to emphasise that, although integration is undoubtedly a progressive process involving certain optimisation and harmony of regional economic structures, its development on the basis of capitalist relations of production involves extreme conflicts, ills, overcoming numerous obstacles, occasionally aggravating old contradictions and always giving rise to new, more profound ones. This also reflects the objective incongruity of the economic interests of the monopoly capital belonging to the countries undergoing integration or to groups of these countries—both on the general plane and in specific spheres, and inter-imperialist contradictions in the region on many cardinal issues—from "pure" economics to "pure" politics through a broad range of intermediate conditions; and the above-mentioned interference in regional economic processes by "third parties", most frequently foreign transnationals; and the struggle between different concepts of integration, for example, the liberal and the *dirigiste* approach to the problem of using supranational instruments for state regulation; and differences concerning limits, rates and forms of liberalisation of trade within the region and so forth.

Internationalisation of economic life is one of the most important universal trends marking the development of "mature and overripe" capitalism. But whatever scale and forms internationalisation assumes, it is patently uncapable of overcoming the fundamental contradiction of the moribund mode of production—the contradiction between attempts to "organise" economic development and spontaneous private capitalist enterprise. As to Western economic thought, its prominent proponents, in our view, have studied world economic problems only in a rather fragmentary manner. The investigation of integration themes has been limited to a group of European authors, and a coherent, independent theory of economic integration distinct from Marxist principles has probably not been developed as yet even on the basis of EEC economic data. As Y. V. Shishkov points out, "despite a certain inclination to the systems approach, most bourgeois authors focus attention on some particular aspect in the integration process which, according to the given author, represents the essence of the process".[27]

Apparently, the following separate parts of the theory of international economic relations are much better developed in the West: problems of motivation and the mechanism of the emergence of direct foreign investments, the genesis and functional-organisational principles of multinational corporations, the consequences of violation of freedom of trade and interstate relations and others.[28] There is a very detailed review of contemporary concepts of direct investments and the transnationals founded on the theory of market imperfections, a decisive contribution to which was made by Canadian author S. A. Hymer and American author Ch. P. Kindleberger in the fundamental collective work *The Multinational Corporation in the 1980s*.[29]

A very consistent theory intended to explain the causes of the currently widespread export of long-term capital in the form of direct investments was worked out by A. M. Rugman.[30] Relying on the now classical analysis of the influence of trade restrictions on the setting up by monopolies of their own production abroad, the author proposes his own theory of internationalisation whose essential meaning consists in recognising "market imperfections", which make the efficient functioning of international trade impossible, as the chief driving motive for investments abroad. According to Rugman, it is internationalisation of production and capital that enables the multinational company to overcome unfavourable external influences having to do, in particular, with state regulation and control. The author refers to such "imperfections" when he writes: "If the conditions for free trade exist, then there is no point in international production — the latter only occurs when these conditions are removed."[31] It is to be pointed out that internationalisation of production is practically accessible only to large corporations enjoying a monopoly of some kind (unique resources of primary materials, advanced technology and its own output of machinery providing for that technology to be implemented, manufacturing several products of one type intended for different markets, access to particularly advantageous sources of finances, and so on). As to monopoly of technology, Rugman quite reasonably assumes that until the possibilities of foreign production for local and adjacent markets have not been exhausted, it is premature to rely on sales of licences and usual commodity export from the home country and unfeasible as an alternative to setting up production subsidiaries abroad. It is interesting that Rugman, apparently realising the functional restrictions of his approach to the truly inexhaustible and most important (in the contemporary world) problem of internationalisation, reduces that problem to a theory intended to explain the widespread phenomenon of direct foreign investment and equates that theory (quite logically!) with the theory of the multinational (transnational) corporation.

It would seem that such observations, correct and interesting in themselves, nevertheless cannot claim to serve as a theoretical alternative to the Marxist-Leninist interpretation of the phenomenon of international economic integration as a typical and increasingly characteristic manifestation of the general tendency towards progressive internationalisation of economic life in the specific conditions of certain regions in the world-wide economy.

Now, let us pass from general theoretical remarks to a description of the specific historical situation in North America in which processes leading to the forming of the USA-Canada integration complex have arisen, advanced considerably and continue to develop.

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 246.

[2] See: Karl Marx, *Capital*, Vol. I, Progress Publishers, Moscow, 1974, pp. 331-32. According to Marx, with the development of productive forces, the division of labour "in general" (into major spheres of economic activity such as industry and agriculture) is increasingly supplemented by division of labour "in particular" (into sectors,

sub-sectors, output of certain kinds of products, i.e. division of labour by commodity based on product specialisation). In our time division of labour "in singular" (division of labour by part and by operation at first observed only within production units) goes beyond the enterprise and becomes a factor in developing not only sectoral and national economic structures but also international economic relations.

[3] K. Marx and F. Engels, "Manifesto of the Communist Party", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 6, Progress Publishers, Moscow, 1976, p. 488.

[4] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 198.

[5] *Ibid*., pp. 252, 253.

[6] *Ibid*., p. 303.

[7] L. I. Glukharev, *West European Integration and International Monopolies*, Mezhdunarodnye Otnosheniya Publishers, Moscow, 1978, p. 17 (in Russian).

[8] Y. V. Shishkov, *The Rise of an Integration Complex in Western Europe: Trends and Contradictions*, p. 17 (in Russian).

[9] V. I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, 1977, p. 37.

[10] Karl Marx, *Capital*, Vol. III, Progress Publishers, Moscow, 1974, p. 333.

[11] See: T. Ya. Belous, *International Monopolies and Export of Capital*, Nauka Publishers, Moscow, 1982, pp. 99-100 (in Russian).

[12] *Salient Features and Trends in Foreign Direct Investment*, United Nations, New York, 1983, p. 34.

[13] *Transnational Corporations in World Development. Third Survey*, United Nations, New York, 1983, p. 357.

[14] M. K. Bunkina, V. V. Motylev, *Contradictions and Conflicts in the Contemporary Capitalist Economy*, Mysl Publishers, Moscow, 1982, p. 54 (in Russian).

[15] Wallace Clement, *Continental Corporate Power. Economic Elite Linkages between Canada and the United States*, McClelland and Stewart, Toronto, 1977, pp. 86-87.

[16] See: *The World Capitalist Market and Problems in the Internationalisation of Economic Life*, Nauka Publishers. Moscow, 1983, pp. 142-44 (in Russian).

[17] See: E. P. Pletnev, *The Cosmopolitanism of Capital and the Internationalism of the Proletariat*, Mezhdunarodnye Otnosheniya Publishers, Moscow, 1974, pp. 91-95 (in Russian).

[18] An analysis of examples when transfer prices were used to avoid paying taxes on incomes and maximalise profits is also to be found in works by North American economists (see, for example: Alan M. Rugman, *Multinationals in Canada: Theory, Performance and Economic Impact*, Martinus Nijhoff Publishers, Boston, 1980, pp. 88—99).

[19] Y. V. Shishkov, *op. cit*., p. 20.

[20] Karl Marx, *Capital*, Vol. I, p. 362.

[21] Y. V. Shishkov, *op. cit*., p. 31.

[22] J.-J. Servan-Schreiber, *The American Challenge*, Atheneum, New York, 1968, p. 3.

[23] This is also confirmed by Western researchers. See, for example: B. Mennis, K. Sauvant, *Emerging Forms of Transnational Community. Transnational Business Enterprises and Regional Integration*, Lexington (Mass.), 1976, p. 42.

[24] T. Ya. Belous, *op. cit*., p. 151.

[25] *The World Capitalist Market...*, p. 26.

[26] M. K. Bunkina, V. V. Motylev, *op. cit.*, p. 24.

[27] Y. V. Shishkov, *op. cit.*, p. 55. The book also contains a detailed review of Western literature on problems of integration in a market (capitalist) economy.

[28] Canadian scholars have made a special contribution to the study of problems having to do with free trade—appraising prospects for its restoration and predicting the impact of liberalisation of trade on individual spheres and sectors of the Canadian economy.

[29] *The Multinational Corporation in the 1980s*, ed. by Ch. P. Kindleberger and D. B. Audretsch, Cambridge (Mass.), 1983, pp. 291-311.

[30] A. M. Rugman, *op. cit.*

[31] *Ibid.*, p. 33.

PART ONE

THE MECHANISM AND CONTRADICTORY EFFECTS OF THE PROCESS OF INTEGRATION BETWEEN CANADA AND THE USA

Chapter Two

Specific Features in the Rise of the Regional Integration Complex in North America

Each of the regions in the capitalist world involved in integration processes has a set of general and specific factors determining the tendency towards integration and its concrete historical conditions in which the latter occurs. This is why there are differences in the rise of integration systems in various regions, specifically divergent relationships between its elements and particularities in the integration mechanisms. The emergence of the USA-Canada regional economic complex also takes place in a distinctive manner. Integration processes here develop under the influence of a number of long-term factors having to do with national economic characteristics, conditions of commodity and capital flow between them, and the like.

Among these factors mention should be made first of all of the nearly ten-fold gap between the USA and Canada in population size (which sets natural limits to market capacity and the growth of the economic potential), as well as in overall scale of economic activity as reflected in the size of the gross domestic product (GDP) and other combined indicators expressed in value and physical terms (power resources, steel manufacturing, industrial and agricultural output, and so on). It is also necessary to point out the historically-rooted relative financial weakness of and low initiative shown by Canadian private capital whose development was initially overshadowed by the British bourgeoisie and subsequently restricted by the role of junior partner imposed on it by American Big Business. Another important factor is the wealth of Canadian natural resources and their complementary nature in respect to raw materials found in the USA.

The course of integration is further seriously influenced by the virtually total absence of restrictions on movement of short-term and even investment capital within the region, conversion of national currencies, deals with the partner country's securities, transfer of profits, migration of labour and transfer of personal income abroad—a whole scope of incentives for direct intertwining of capital markets and reproductive processes.

And last but not least, there is the geographical and concrete historical factor: territorial proximity, similar backgrounds, capitalist economic management principles of one type, ethnic likeness, a common language and cultural traditions (whose peculiarities do not preclude economic convergence).

In historical retrospect, the impact of all these factors generally stimulated energetic introduction of American capital into the Canadian economy and also the relatively small industrial system of Canada being drawn towards the powerful economic potential of its southern neighbour. These factors were also instrumental in the rise of specific forms of North American integration and its mechanism. It is to be noted here that these factors also explain the fact that, from the outset, it developed as integration between unequals, as a system for tying Canada as a raw material periphery to the American industrial hub.

The sum of these factors provides the key to understanding both the origin of the openness of the Canadian economy, its clear gravitation towards foreign markets, its specific production structure largely subordinated to the needs of US monopolies, and the relatively small extent of the economy's internal integration; the economy tends to fall into the sub-structures of the provinces' economies often more involved in economic exchange with the adjacent American states than with each other. It is probably here that also lie the roots of Canadian nationalism which has emerged as a natural response by a nation that has arisen, strengthened its statehood, become aware of its distinct historical path and once again faces the danger of losing these gains and being absorbed into the genetically similar yet alien American social and economic system.

Private Monopoly and Interstate Levels in the Integration Process

By exporting capital in the form of direct investments on a large scale US monopolies have created two groups of production sectors one of which is intended to provide stable and large-scale deliveries of industrial raw materials and semi-manufactured products (metal ores, asbestos, steel and non-ferrous metals, oil and gas, lumber, pulp and newsprint) and the other to secure a monopoly position on the Canadian domestic market of industrial goods. At the same time, the foundations were laid for regular and extremely large-scale export into Canada of American engineering products for industrial construction and maintenance of Canadian enterprises belonging to US monopolies in operating condition, as well as for developing international specialisation and cooperation, including intra-company exchange.

Thus, underlying the enormous scale and stable expansion of trade turnover between the USA and Canada is a deep, structural division of labour between their industrial companies with a decisive role played by the export of American private capital into Canada. The two countries' customs tariffs contributed to the existing pattern of reciprocal commodity exchange, while the overall degree of trade liberalisation in the region remained remote from the "free trade" conditions created within the EEC. The crucial specific feature of North American integration as compared with Western Europe lies in the fact that the mechanism of the rise (and operation) of the USA-Canada regional economic complex is marked by almost total absence of "initiative from above", i.e. bilateral interstate regulating or stimulating measures. At the same time, the "initiative from below" is clearly apparent. In other words, the private monopoly element absolutely prevails in North American integration so that integration processes develop actively at the micro-economic level, involving, above all, ties between capital as well as relations of specialisation and cooperation between companies. American researcher William Diebold, Jr. has remarked: "The fabric of US-Canadian relations is so closely knit below the governmental level that the substance of the relations between the two countries is more likely to be found there than in the usual catalog of interstate relations".[1] A group of researchers from Carleton University have indicated: "The process of internationalization by private actors in the economic sector is far advanced in the cases of Canada and the United States".[2]

As will be shown further on, developing hand in hand for decades, the processes of interlocking of capital within the region (mostly on the basis of the increase in scale and extent of the structural and territorial sphere of direct US investment) and division of labour resulted in the largely complementary nature of Canada's national economic structure in respect to that of the USA and the close intertwining of the two countries' reproductive processes. Soviet researcher T. V. Lavrovskaya has written: "The economies of the USA and Canada are highly interdependent, enabling us to speak of a far-reaching process of bilateral integration... The high degree of division of labour and a broad scope of its logical practical outcome points to the emerging in North America's economy of an integrated economic complex".[3]

The fact that in a context of free movement of factors of production in the region US monopolies managed to secure the Canadian economy's development along lines advantageous to them only serves to underscore the active role played by private capital in the rise of the integration system. The structure of national tariffs that had taken shape in the 1930s established, for a long time to come, a status quo whose basic features were a predominance of industrial raw materials in Canada's export to the USA and reciprocal American deliveries of finished industrial products intended primarily to satisfy investment demand. As a recent study of Canadian-American relations reads: "American tariff barriers prevented the maturation of Canadian manufacturing industry by excluding its finished products from its neighbour's mass market. At the same time Canadian tariffs had attracted foreign-controlled branch plants that turned Canada's economy into a miniature replica of the American."[4]

As to the state level, the role of state bodies was largely reduced to creating certain preconditions for private monopoly integration in the shape of an extremely specific climate (or background) for the development of economic processes in the region. In Western Europe the impulse for integration processes was provided by the introduction of the Common Market by six countries, and the movement of capital and labour was liberalised only during subsequent phases, whereas in North America freedom of movement of the two latter factors of production was a tremendous advantage in foreign economic expansion enjoyed by the US monopolies from the very outset and which they used skilfully to establish their domination in the regional economy.

It is interesting that in this sphere many problems of negative integration, as British economist J. Pinder[5] called the elimination of restrictions on international movement of factors of production, of commodities, services, capital and the like, were basically solved in North America a long time ago and unilaterally, and not by means of government treaties (such as the West European Treaty of Rome). The clearing of the way for unhindered movement of goods, however, occurred much later and to a much lesser extent than, say, for the movement of investment capital. It involved only three, albeit large, groups of industrial products. The opportunity of tariff-free (or low-tariff) export to the USA of unprocessed raw materials had existed for a long time, creating additional incentives for massive penetration of Canada by resource-oriented American transnationals. It is also appropriate to point out that the largest step towards bilateral trade liberalisation—the well-known 1965 Auto-Pact which undoubtedly contributed to further intrasectoral division of labour in the region and development of specialisation and cooperation—was made when the sector was American in terms of capital anyway.

While on the subject, it is possible on the basis of the experience of the North American automotive industry (to be dealt with in detail in Chapter Six) to draw the following two important conclusions: first, high tariffs do not prevent, and occasionally even stimulate, penetration of certain sectors by private foreign capital—and even establishment of full control over these sectors; second, trade liberalisation, particularly on a bilateral basis, is capable of breathing new life into the integration process, stimulating further merging of sectoral production on a regional basis and a considerable rise in the level of the division of labour between the companies taking part in it (the presence of foreign companies in the sector does not necessarily guarantee such a rise). Quite a special question is the distribution of benefits from development of sectoral integration on the basis of links in capital and as a result of trade liberalisation. In the case of the automotive industry, for example, the chief advantages both before 1965 and now are enjoyed by the senior partner of integration controlling sectoral production and the regional market.

The rather unusual combination of liberalisation in movement of capital and retention of trade restrictions gave rise to differences in the market orientation of enterprises located in Canada and belonging to individual sectors undergoing integration. Thus, companies of the resources sector intend an overwhelming part of their output for export, primarily to satisfy the needs of US industry. At the same time companies in the manufacturing sectors, including branch plants of the US transnationals, sell most of their output on the domestic market whose restricting impact on the scale of production they feel, and they are able to withstand foreign competition only due to protective tariffs. It is to be emphasised simultaneously that the capacity for "negative integration" in the form of trade liberalisation is theoretically quite large in the North American region, although its prospects can hardly be called clear (the question will be considered in Chapter Seven).

The pattern of the international division of labour existing in the region for many decades was marked above all by product specialisation, i.e. prevailing division of labour of the "general" and the "particular" type. Product specialisation of production units has to a considerable extent retained its importance up to our day, although a number of new factors having to do with the modern scientific and technological revolution have introduced changes. It is important to point out that there were major objective (including organisational) preconditions for this, i.e. close ties between the two countries' companies in terms of capital. Joint ownership and financial control undoubtedly strongly facilitated development of specialisation by part and by operation within regional production complexes of the North American transnationals. In the course of their development, processes of intraregional division of labour of the "singular" type encounter with increasing frequency obstacles on their way in the shape of tariffs in mutual trade between the two countries retaining significant elements of protectionism in commodity exchange of semi-manufactured and finished goods. Internationalisation of capital and development of international specialisation and cooperation in their progressive forms thus enter into contradiction with the commercial policies of both countries aimed at defending the interests of national producers even at the cost of slowing down scientific and technical progress and renouncing potential advantages having to do with rationalisation of sectoral production on a wider regional basis. Therein lies one of the objective limits of private monopoly integration in a context of incomplete trade liberalisation implying coordinated agreements at the interstate level.

The experience of West European integration shows that in the course of its development an increasing role is played by elements of "positive integration", i.e. a set of measures unifying the principal instruments of the participating countries' economic policies including tax and credit systems, instruments of current (market) and long-term (structural) regulation of the national economy.[6] As to the North American region, such "positive integration" is virtually absent there not only in the form of instruments of supranational regulation that would serve effectively to restrict national sovereignty but even in the form of simple coordination of certain unilateral economic-policy decisions so as to avoid contradictions between them that could reduce their effectiveness and lead to inter-government differences.

Of course, gross inconsistencies in national economic policies pursued by the two countries' federal governments do not, and cannot, occur, since the reproductive processes within the region are largely synchronised (a high degree of integration at the production level), and the set of instruments for direct, and particularly indirect, management of the economy are largely similar, the economy's structure is of the same type and so are the problems facing state regulation agencies (employment, inflation, international balance of payments, stimulating regional development and positive structural changes and so on). In a situation when the sales problem is generally aggravated, particularly in periods of crises, the government agencies of the two countries enter a kind of competition to secure the best conditions for sales (increasing state purchases, campaigns of the Buy Canadian or Buy American kind) for "their own" firms (not according to capital but according to location of enterprises), relatively easy access to investment capital and so on.

A clear example of the largely spontaneous and forced adjustment of Canada's economic policy to US policy is provided by the loan capital market: the interest rate of the Canadian central bank, and in its wake, the rates of charter banks, particularly for short-term credit on which depends the migration of "hot money", traditionally follow the US pattern, and since the 1970s when the Canadian dollar has been freely floated, the interest rate stably exceeds the US level to secure an inflow of capital into the country and maintain competitiveness of Canadian exporters. Canadian capitalists complained particularly vehemently that credits were expensive in the period of the crisis in the early 1980s when most private companies suffered from an acute shortage of funds, and the government was afraid to help: Reagan had "straddled the wave of high interest rates" and was stubbornly racing on (and still does), while Canada was forced to "tune" even higher, otherwise money would have flown from the country, which was tantamount to a catastrophe under the circumstances.[7] As a general appraisal, we may cite the statement by a leading Canadian authority, Stephen Clarkson, that "Canada's capital markets operated like an extension of the U.S. money markets".[8]

In any case, the fact remains: the two countries' instruments of economic policy retain a clearly national character, and no mechanism has practically been set up for even the least bit regular coordination of their use. But what is even more important and simultaneously amazing is the nearly total absence of any regional economic institutions. Indeed, "the two most intensely related nations"[9] not only have not worked out some general treaty to regulate their mutual economic relations but even in those spheres where integration has gone the furthest do without the usual working agencies. It is difficult to believe, but even fulfilment of the Auto-Pact is controlled separately by the two sides who issue their reviews of the state of the industry every year, and often with very contradictory conclusions.

Noting that "a high degree of continentalism has developed in the energy sector", the authors of an authoritative Canadian study point out that "this sectoral integration hinges on the dominant position of US investment in Canada's petroleum and natural gas industries, as well as on Canada's exclusive reliance on US markets... the creation of a continental pipeline system" and so on. And the researchers speak directly of "a minimum version of continentalism as currently represented by the energy sector... even without the instrument of a single formal agreement". They tend to regard "some degree of joint planning, joint resources management, and probably also joint policy-making" as marking a "continentalism of a more intensive form", i.e. a higher step in integration.[10]

Soviet researchers' opinions concerning the institutional (trans- or supranational) structure as an inevitable part of a mature integration system generally coincide. Thus, M. M. Maximova links the new, integrational level in socialisation of production with the need to regulate international economic ties and relations.[11] Y. V. Shishkov believes that "integration of the relevant countries' economic policies and instruments of those policies is an inevitable consequence of mutual interlocking of national reproductive processes" and that "this specific part of regional integration occurs not only within the official international government organisations of the EEC type but also in the simplest forms outside these, for example, in North America".[12] T. V. Lavrovskaya has this to say: "Up to a certain point, regional integration may develop without an interstate organisation pursuing integration aims. Such an organisation is a possible but not compulsory attribute of the integration process, particularly in the early phases".[13]

The author of the present work shares on the whole the viewpoint set forth in the above quotations. The only specification to be made is that the absence of a regional economic organisation or ramified network of transnational regulating agencies is not, in our view, a sign of immaturity or of an early stage of the integration process but rather proves the strength of the American transnationals and the effectiveness of the organisational structure of regional business they have developed on a private monopoly basis, on the one hand, and the acuteness of interstate contradictions in North America, on the other.

Apparently the American monopolists and their partners from the Canadian bourgeoisie have no particular need for a special economic-policy mechanism, otherwise they would have set it up or developed something similar at their private monopoly level. Nothing of the sort exists! Numerous sectoral and wider associations of industrialists operate on both sides of the frontier, but so far not one North America-wide government or private integration organisation has been created. The joint body of American and Canadian entrepreneurs, the Conference Board, evidently should not be counted since it is concerned only with preparing research reports and sponsoring topical conferences, i.e. significantly different functions as compared with national associations of producers. The same holds for the Canadian-American Committee, a non-governmental organisation bringing together businessmen, trade unionists, scholars and other public figures from both countries.

As to the company level, the function of coordinating economic policies is fulfilled on the basis of a participation system, i.e. interlocking of the two countries' monopoly capital, and also personal links whose mechanism was brilliantly and comprehensively revealed by Wallace Clement.[14] The same aim, incidentally, is achieved at the producer association level as a result of constant official and unofficial contacts between their leaders and the most influential members.

To return to our second reservation, it concerns primarily Canada's reluctance to make any commitments in respect to its southern neighbour in whose powerful embrace it is suffocating as it is. Canadian economists Kal J. Holsti and Thomas A. Levy have written: "Others argue that given the state of public opinion in the country, it would be impolitic to create new agencies which give the appearance of locking Canada further into America's problems".[15]

It is possible to agree with authors who believe that small countries have a greater interest as a rule in creating a mechanism for joint regulation of economic processes, that it is vitally important for them, since alone they are often "unable to cope with spontaneous phenomena in their national economy".[16] As to Canada, concerned as it is with the massive American presence in its economy and attempting by all means to retain its independence and cultural identity, its specific appearance and independent place in the subcontinent's economy and politics, it will be shown below in a convincing manner that such considerations obviously recede into the background for that country.

Thus, economic integration in the North American region still develops mostly "from below" on a private monopoly basis, without a comprehensive interstate agreement or special integration institutions. Being a complex, inhomogeneous and multifactoral phenomenon of social life, integration is an objective process developing at different levels (in terms of dynamics) and simultaneously an established system existing at a given moment (from the static viewpoint). Natural for mature (and overripe) capitalism, the process of regional integration develops in a context of the struggle between trends and counter-trends, under the impact of a large set of domestic and foreign factors stepping up or slowing down the process in individual layers and spheres. But if the course of that process is irregular, and its individual parameters shifting and unstable, the characteristics of the integration system are much more stable. It is precisely a system, something formed and viable, an economic community evolving gradually and, as a rule, progressively, without abrupt turns in trends. The latter does not mean that under the impact of sudden and deep-going changes in the situation, a major decision in the field of government policy and so on, the development of integration may not proceed in leaps and bounds or, on the contrary, experience the strong counter-influence of trends towards de-integration.

In its inner economic significance the rise and development of the integration system is precisely the forming of a regional economic complex as a largely unified interstate economic body with closely intertwined national reproductive processes and mutually complementary economic structures. In the specific conditions of individual regions in the capitalist world, one and the same key aim of integration—firm economic interaction, mutual penetration and merging of national economies within the framework of a broader "hyperstructure"—is achieved under a specific combination of elements ("partial integrations") enabling us to speak of different models of imperialist integration.

It is to be recalled once again that in war-ravaged Western Europe it was necessary to conclude (in addition to the sectoral agreement with the European Coal and Steel Community) a general agreement setting up the European Economic Community to put integration forces at the private capital level into action. The terms of the Treaty of Rome secured a phased liberalisation of trade among the EEC countries along the lines of a tariff alliance and also freedom of movement for capital and labour, thereby solving the problems of "negative" integration. Quite a complicated and ramified institutional structure was set up—ranging from the Commission of the European Communities and the Commission of the European Council with their endless agencies, research and working groups to the European Court and the European Parliament—supranational organs creating an opportunity to pass to political integration in the future. It was on this basis that in the last decades major steps were undertaken to work out a European (community) policy along certain lines, apparently chief among which is the unified Common Market agrarian policy.

The evolution of forms of Western Europe integration from tariff alliance to economic union and in the future to political alliance, has occurred in fits and starts involving conflicts and acute foreign and domestic contradictions but still enabling problems of "positive" integration to be solved by means of the supranational instruments of state-monopoly regulation. Parallel to the latter there was territorial expansion of the nucleus of the Western European integration system with new members joining the EEC, an even broader zone of free trade in industrial goods was created, and the system of the EEC's special relations with a large group of developing countries in Africa, the Caribbean and the Pacific was restructured and extended.

It was economic-policy integration that cleared the way in the region for energetic internationalisation of economic life, for a growth of integration processes at the micro-level manifested in expanding mutual trade between the EEC countries, development and extension of production links between companies on the basis of specialisation and cooperation, an increase in the potential and broadening of the sphere of activity of the Western European transnationals, the emergence of multinational monopolies and so forth. The integration processes in the region at a private monopoly level were closely tied to the rapid development of

"European business" carried on by the monopolies of third countries, above all the USA and Japan.

As to the USA-Canada regional economic complex, its genesis and mechanism differs considerably from the Western European model. In particular, the most important precondition for private monopoly integration was created here a long time ago and unilaterally, albeit on the basis of reciprocity—this was the free flow of capital across the border which, combined with unrestricted currency conversion and free migration of population in search of jobs, meant the solution of a number of problems of "negative" integration without any formal legal instrument. Although tariff regulation of mutual commodity turnover was always a far cry from free trade, it still left sufficient scope for division of labour within the region. The division of labour developed mostly along lines set down by the stronger side, the US transnationals on whose initiative and money Canada was industrialised to a considerable extent in the 20th century. The unequal strength of the two countries' bourgeoisie combined with a "free hand" for private enterprise and the specific structure of mutual trade due to the two countries' tariffs lent the whole process of North American integration an unequal, lopsided nature.

Apparently, this same free hand for private business explains why what Marxist researchers call "economic-policy" integration is almost totally absent in North America. There are extremely few bilateral inter-governmental trade and economic agreements in the practice of the countries' relations in the region and no joint institutions such as the EEC supranational agencies at all. As to the tools of coordinated economic policy or supranational regulation, such manifestations of "positive" integration are not to be observed in North America yet.

It would seem that this stable, fundamental feature of the North American integration model will hardly disappear in the near future, given the acute political situation in the region. Under capitalism, centrifugal forces always exist in relations between states strengthening inequality in development of the integration process and lending it a conflicting and often unstable character. As to North America, contradictions between countries here have often taken the form of political quarrels due to the American ruling circles' imperial egoism and expansionism, on the one hand, outbursts of "nationalism" in Canada and a more consistent and "calm" course by Mexico aimed at preserving and strengthening its independence, on the other.

As a result, regional interlocking of capital develops against a background of an alternatively strengthening and somewhat weakening tendency towards Canadianisation (or Mexicanisation as the case may be) of key sectors in the national economy, while in the energy industry, for example, since the beginning of the 1980s there has been a marked weakening of the system of control over production and sales which was formed during two decades and had secured the USA's absolute domination of the petroleum and natural gas industry in North America (see Chapter Four). Undoubtedly, all this complicates and slows down the internationalisation of economic relations and internationalisation of capital[17] characteristic of mature capitalism and makes it rather unlikely that something similar to the Treaty of Rome or special integration institutions of the EEC type will appear in the region in the near future.

The Institutional Structure of the Regional Economic Complex

Nevertheless, one should not underestimate the importance of existing interstate institutions which in some instances have displayed their influence and some degree of effectiveness.

The first such organisation—the International Joint Commission (IJC)—was founded back in 1909 to watch over fulfilment of the Canadian-American agreement on coastal waters. This old bilateral intergovernmental organisation usually does not take any joint political decisions (although it has the authority), but confines itself to making recommendations to national governments. Nevertheless, its activity is rather effective, since its recommendations concern mostly technical aspects of problems and are based on unbiassed opinions of experts. Suffice it to say that the commission elaborated the terms of large-scale bilateral projects such as the St. Lawrence Seaway and development of the Columbia River's water resources. "No organization or institution has been more of a bulwark in the maintenance of strong and productive US-Canadian relations," was what American authors S. R. Tupper and D. L. Baily wrote about the IJC in a book marking the hundredth anniversary of the Canadian confederation.[18] The importance of the commission's activities is magnified by the fact that it has under its direction more than twenty bodies of a more specific, mostly research, nature.

In the sphere of economic policy-making the most influential organisation is apparently the Canada-USA Ministerial Committee on Trade and Economic Affairs set up in 1953. Securing a high standard of discussions of bilateral economic and trade problems, the committee is still regarded as insufficiently effective, since it convenes only occasionally. Elaboration and finalisation of the terms of the Auto-Pact is considered to be its major achievement. The committee could be made more effective, according to many, if a working body were set up at the level of deputy ministers to meet more regularly and prepare the ground for taking more responsible interstate decisions.

Since 1959 members of the Canada-United States Inter-Parliamentary Group—12 US congressmen and the same number of Canadian members of parliament—come together at annual sessions. However, these meetings are social occasions rather than business affairs.[19]

All in all, 18 bilateral intergovernmental agencies existed in the mid-1970s; of these, five (the oldest) were concerned with questions of frontier waters and off-shore fisheries.

A total of eight organisations set up between 1940 (Permanent Joint Board on Defence) and 1958 (Canada-United States Ministerial Committee on Joint Defence) are called upon to secure effective adjustment of the Canadian armed forces and military industry to the needs of the Pentagon's militaristic complex. Chief among these organisations is the notorious NORAD (until recently the North American Air Defence Command) whose institution in 1946 meant that Canada's air force and anti-aircraft defence systems were involved in a single North American system controlled from Washington. It is only too well known that NORAD activities include deployment of US missiles and military forces on Canadian territory, and the fact that in 1981 the organisation was renamed the North American Airospace Defence Command means, as the

Canadian Communists see it, that it is intended to involve Canada further in US aggressive plans and the strategic arms race.[20] Since the late 1950s a special body oversees fulfilment of the terms of the United States-Canadian Defence Production Development Sharing Programme (for further details, see Chapter Six).

In addition there are organisations to coordinate monetary and financial aspects in relations between the two states (the Canada-United States Balance of Payments Committee founded in 1963), joint upkeeping of national parks (the relevant commission was founded in 1964), regulating contradictions in the field of trade in agricultural products (the Canada-United States Technical Committee on Agricultural Marketing and Trade Problems, set up in 1967).

According to Canadian researchers, the most clearly "integrational" are those intergovernmental organisations whose jurisdiction includes questions having to do with the territorial proximity of the two countries (coastal waters, fisheries, ecology of the frontier zone). So, with some reservations, are the military organisations of the NORAD type. As distinct from these, organisations intended to settle acute trade, monetary and financial problems have a minimum of integrational features, i.e. are uncapable of elaborating decisions to any extent binding on both sides.[21]

However, most of the bilateral negotiations having to do with coordination of mutual interests in trade, economic, social and other fields do not fall on these intergovernmental organisations, but on official and "direct informal" contacts between departments and responsible officials in ministries and agencies. Some coordination of such contacts is carried out by quite numerous bodies at the US Congress (for example, subcommittees on economic policy and inter-American economic relations of the US Congress Joint Economic Committee) and Canada's Federal Parliament (the Standing Senate Committee on Foreign Affairs). Since 1973 this has also been the responsibility of a special Under Secretary of State for Foreign Affairs (so far no other country has been accorded the honour of a top official in the US State Department constantly looking after relations with that country).[22] In the press and research publications one often finds statements to the effect that "a unique and special relationship has developed over the past three decades, founded on compatibilities of interest and views and good working relationships between diplomatic and governmental personnel".[23]

It is to be noted that the sides have quite different potential opportunities to influence each other. As early as the beginning of the 1960s when the features of integration were not so clearly apparent, Hugh G. J. Aitken acknowledged that virtually any foreign-economic decision in Washington was bound to influence the Canadian economy, but Canada, in its turn, could only indirectly influence the decision-making mechanism in the USA and only if its interests coincided with those of some pressure group in that country.[24] This does not mean, however, that one should disregard the possibilities of the "Canadian lobby" in Washington, particularly since it includes people from numerous powerful US transnationals operating in Canada and often sharing the interests of its national producers.[25] Nevertheless, according to a widespread belief, "Canada has fewer cards to play in any game with the United States, because of the disparate degrees of dependency"[26] between the two countries undergoing integration.

In the context of the growing economic and political conflicts in the region on the threshold and at the beginning of the 1980s many people in Canada expected "a shift away from the easy informality that has frequently marked inter-governmental relations".[27] Indeed, as many students of Canadian-American relations remarked, since autumn 1981, they underwent the "most acute crisis ... in living memory".[28] This led to the disappearance of the "quiet accommodation [which had] characterized the way the two capitals dealt with each other" in the previous decades when their relationship "was truly special by contemporary international standards".[29]

This was largely a personal "achievement" of Ronald Reagan who introduced the tough and uncompromising line into American-Canadian relations which they lacked previously (uncompromising in the bad sense of the word, as the absence of the desire to solve problems by means of negotiations and mutual consultations). Even in Carter's times, however, "the specialness of Canadian-American relations was more apparent than real", because there definitely were "perceptible divergences in the definition of some of their major national interests".[30]

Yet the crisis of the early 1980s in Canadian-American interstate relations, a major role in the aggravation of which was played by the protectionist actions sponsored by the Republican administration, ended just as unexpectedly as it had started, and even before the Conservatives headed by Brian Mulroney came to power in Ottawa. This did not mean that the objectively existing (and growing) contradictions underlying the crisis were successfully resolved (the influence of Reagan's protectionism on the course of and prospects for mutual trade between the two countries will be shown in Chapter Six). It was just that a more or less normal dialogue was resumed, and the situation in interstate relations at all levels acquired its usual appearance excluding "raising a row and being unpleasant in public".[31]

This was particularly obvious in the course of the March 1985 Canadian-American summit meeting. At the talks in Quebec Reagan showed himself unusually compliant as regards the settlement of a number of sore questions from the standpoint of Canada's interests, including fishing in coastal waters and US purchases of Canadian components of military hardware. For his part Mulroney did not insist on the acid rain issue which was in the focus of acute discussions filled with caustic remarks, mutual reproaches and accusations.[32]

In one of the latest joint publications of the C. D. Howe Institute and the National Planning Association devoted to problems of Canadian-American cooperation, a whole section dealt with settling differences in bilateral relations. The author of the book David Leyton-Brown expressed the hope, in particular, that "In time, a new set of norms and principles or pattern of behaviour can be expected to restore more predictability to the way issues are handled in the relationship". He regarded this as particularly important due to the enormous mutual dependence of the two countries.[33]

Describing the regional mechanism for coordinating economic interests, mention should be made, finally, of the energetic talks delegates from Canadian provinces have conducted in Washington and the capitals of individual states and the respective talks held by officials from US states in Ottawa, Edmonton, Vancouver and other cities. Once again researchers remark a heightened activeness by the authorities of Canadian provinces which, in our view, may be judged as a sign of the Canadian side's greater dependence on economic and political decisions taken by the neighbour in the region, and not only at the federal level. Thus, according to one estimate, in the mid-1970s there were more than a thousand spheres of interaction in which US states cooperated with Canadian provinces.[3 4]

Nevertheless, one often finds complaints in the Canadian press concerning the weakness of the institutional structure called upon to settle conflicts in bilateral economic relations or help avoid them. No wonder that at the end of 1983 and beginning of 1984, in the course of preparations for, and talks on, further "sectoral" liberalisation of mutual trade held against the background of the revival of protectionist moods in the USA (a paradox of Reaganomics), Canada discussed the question of setting up a private body humorously called Canada Inc. which would provide national companies with commercial and political information and lobby on their behalf among US business circles and also in the Congress.[3 5]

Concluding this short review of the basic elements in the mechanism of the operation of the USA-Canada regional economic complex (excluding trade to be specially dealt with in the second part of the book), we would like to indicate once again that the relatively few tools for coordinating economic policy and their restricted functions in our view reflect not the weakness but, on the contrary, the intensity of integration processes in the subcontinent's economy developing chiefly at the private monopoly level.

[1] *Natural Resources in US-Canadian Relations,* Vol. I ("The Evolution of Policies and Issues"), ed. by Carl E. Beigie and Alfred O. Hero, Jr., Westview Press, Boulder (Col), 1980, p. 350.

[2] Harald von Riekhoff, John H. Sigler, Brian W. Tomlin, *Canadian-US Relations: Policy Environments, Issues, and Prospects,* C. D. Howe Research Institute, Montreal, 1979, p. 18.

[3] *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, No. 8, 1982, p. 41.

[4] Stephen Clarkson, *Canada and the Reagan Challenge. Crisis in the Canadian-American Relationship*, James Lorimer & Co., Toronto, 1982, pp. 6-7.

[5] *Economic Integration in Europe.* Ed. by J. R. Denton, London, 1969, p. 145.

[6] See: Y. V. Shishkov, *The Rise of an Integration Complex in Western Europe...*, pp. 227-47 et al.

[7] *The Financial Post,* December 27, 1980.

[8] Stephen Clarkson, *op. cit.*, p. 7.

[9] Wallace Clement, *Continental Corporate Power...*, p. 21.
[10] H. von Riekhoff, J. H. Sigler, B. W. Tomlin, *op. cit.*, pp. 67, 65.
[11] M. M. Maximova, *Basic Problems of Imperialist Integration*, p. 133.
[12] Y. V. Shishkov, *op. cit.*, p. 263.
[13] *SShA: ekonomika, politika, ideologiya*, No. 3, 1978, p. 29.
[14] Wallace Clement, *op. cit.*, pp. 172-82, 252-88.
[15] *Canada and the United States: Transnational and Transgovernmental Relations*, Columbia University Press, New York, 1976, p. 308.
[16] Y. V. Shishkov, *op. cit.*, pp. 324-25.
[17] See: V. I. Lenin, "Preface to N. Bukharin's Pamphlet, *Imperialism and the World Economy*", *Collected Works*, Vol. 22, p. 104.
[18] S. R. Tupper, D. L. Baily, *Canada and the United States. The Second Hundred Years*, New York, 1967, p. 134.
[19] See: *Canada and the United States: Transnational and Transgovernmental Relations*, pp. 132, 285-289.
[20] See: *Communist Viewpoint*, Vol. 13, No. 4, July-Aug. 1981, p. 6.
[21] See: *Canada and the United States: Transnational and Transgovernmental Relations*, p. 288.
[22] *Ibid.*, pp. 289, 405; H. von Riekhoff, J. H. Sigler, B. W. Tomlin, *op. cit.*, pp. 34-36.
[23] *Natural Resources in U.S.-Canadian Relations*, Vol. I, Westview Press, Boulder, Colorado, 1980, p. 122.
[24] Hugh G. J. Aitken, *American Capital and Canadian Resources*, Cambridge (Mass.), 1961, p. 156.
[25] *An Independent Foreign Policy for Canada?* Ed. by Stephen Clarkson, McClelland and Stewart, Ltd., Toronto-Montreal, 1968, p. 11.
[26] *Canada-United States Relations. Proceedings of the Academy of Political Science*, Vol. 32, No. 2, ed. by H. E. English, New York, 1976, p. 86.
[27] H. von Riekhoff, J. H. Sigler, B. W. Tomlin, *op. cit.*, p. 115.
[28] S. Clarkson, *op. cit.*, p. 4.
[29] *Ibid.*, pp. 6, 5.
[30] *Ibid.*, p. 9.
[31] *Department of State Bulletin*, August 2, 1965, p. 201.
[32] *The Christian Science Monitor*, March 15, 1985, p. 17.
[33] David Leyton-Brown, *Weathering the Storm: Canadian-U.S. Relations, 1980-83*, Canadian-American Committee, Toronto, 1985, p. 79.
[34] See: Roger F. Swanson, *Intergovernmental Perspectives on the Canada-U.S. Relationship*, New York University Press, New York, 1978, p. 233.
[35] See: *The Financial Post*, February 18, 1984; April 14, 1984.

Chapter Three

Integration of Unequals: Benefits and Disadvantages for the Canadian Side

Canada's social and economic history is the history of a settlers' colony, a "white dominion", turning into a highly developed, politically independent state of monopoly capitalism.

European colonisation of the territory of modern Canada was known to have begun in the 17th century, but its economic development really went forward in the last century, particularly after Britain was forced to grant its North American possessions self-government.

The settlers brought with them not only production experience and knowledge, not only the desire to lend a hand in developing that rich and primeval land, but also capital. British and French colonists went overseas with their families and savings hoping, by investing their labour and money in the lands, forests and minerals of the New World, to obtain higher profits than investments in the European home countries, where cruel competition left no hope for quick enrichment, would yield. Canada lived up to the hopes of the pioneers of its development, and caravans of vessels sailed across the ocean carrying wheat, furs, fish, bacon, lumber, asbestos and ores to Europe. The ships took back machine tools, agricultural implements, dredges and also new orders and extensive returns on the export. In an unrestrained urge to expand its economic territory, US capital overflowed its northern border and established itself in the most easily accessible and best explored provinces of Quebec and Ontario. With it came industrial methods of extracting minerals, advanced techniques for concentrating and processing raw materials, the experience of assembly line manufacturing and an army of highly skilled engineers, construction workers and managers.

An unprecedented struggle began between the imperialist powers for Canadian raw material sources, spheres of capital investment promising enormous profits, and domination of the country's rapidly expanding markets where economic progress was almost exclusively based on import of advanced technology and the population rapidly increased not without the help of immigration.

Lenin wrote that "The export of capital influences and greatly accelerates the development of capitalism in those countries to which it is exported".[1] Indeed, stimulated by intensive inflow of capital from abroad, Canadian capitalism rapidly developed extensively and in-depth. The frontier of economic development rolled further north and west, transcontinental roads were built, extraction of ores and minerals grew, industry established itself as a sphere for investment of capital, above all foreign capital. All this required large capital outlays which contributed to rising concentration and centralisation of capital.

Despite the Great Depression of the 1930s which seriously slowed down Canada's industrial development and hit primary material exporting industries particularly hard (by this time they were working mostly for the US market), by the start of the Second World War Canada had already emerged as an industrial-agrarian power. At the same time, basing its development largely on the inflow of foreign capital, Canada acquired the sufficiently clear-cut features of a dependent country with a unique industrial structure. In 1937 mineral and pulp-and-paper raw materials and semi-manufactured products accounted for 37 per cent of industrial output, and machinery and equipment of all kinds for less than 12 per cent (in Great Britain it was 24 per cent and in the USA—25 per cent), chemical products—3 per cent, consumer goods—28 per cent (in Germany 36 per cent).

However, US capital began to penetrate the Canadian economy on a particularly large scale in the postwar decades. It was in the same period that the national bourgeoisie grew significantly, Canadian monopoly capital formed definitely as the chief force opposing US monopolies and being in contradictory partnership with them on the basis of joint exploitation of the country's natural and manpower resources.

In our day Canada is a country with a 25-million population, 80 per cent of which is located along the southern border (there is a joke that Canada is four thousand miles long and fifty miles wide). Up to 58 per cent of the inhabitants live in cities with a population of over 100,000 people. The per capita energy consumption level is five times greater than the average world level, and the cost of hydroelectric power is the lowest in the capitalist world.

It is Canada's particular destiny that, after having left Britain's imperial orbit, the country entered the strong gravitational field of the United States of America and has been there since. At the same time, a sovereign, politically independent state, Canada economically constitutes not a unified highly integrated national economic entity but rather a conglomerate of mini-economies of the individual provinces virtually linked by stronger trade and other bonds to adjacent US states than to each other. This largely explains the dual and contradictory position Canada occupies in the economy of the North American subcontinent and the world economy as well as in the system of international relations as a whole.

Describing Canada's position on the North American subcontinent, and in particular its relations with the USA, the Canadian Communists say that their country "is neither a colony nor a semi-colony" and that "Canadian monopoly is more than a junior partner of U.S. imperialism".[2] But they are the first to warn of the danger of a closer alliance with the largest imperialist power.

Firmly belonging to the "top ten" in the capitalist world in overall scale of economic activity and foreign trade and the "top five" in the respective per capita figures, it also leads, for example, in such parametres as the sum of foreign direct investments in its economy or international per capita long-term debt. In the structural respect Canada is a country with the highest share of the non-productive sphere in the GDP and one of the lowest shares of the manufacturing industry among the group of developed capitalist countries.

The country is extremely heavily involved in world capitalist trade. The "export quota" estimated for the whole national economy constitutes about 30 per cent, while the share of commodity export in the output of Canadian material production approaches two thirds. Import of goods and services also covers about 30 per cent of domestic demand. At the same time the structure of Canadian foreign trade is marked by serious disproportions lending Canada the qualities of a dependent country, and the share of its principal trade partner, the United States of America, in national export and import consistently exceeds 70 per cent.

Canada's dual position in the international capitalist division of labour consists in the fact that, being one of the most active advocates of further trade liberalisation at numerous talks in GATT (which fact reflects its objective interests as an exporter), Canada's customs tariff remains among the most protectionist ones in the developed capitalist world.

It is universally acknowledged that one of the strongest parts of the Canadian economic system are its banks distinguished by the highest concentration of financial resources in the world. At the same time almost no other country draws such large loans abroad as Canada.

The country's position in the West's military-strategic system is also contradictory. On the one hand, in the size of direct per capita military expenditures it occupies the next to last place among all NATO countries, while the share of these expenditures in the country's GDP (2.1 per cent in 1984) was two fifths of the average figure for NATO members (6.8 per cent for the USA). On the other hand, due to its participation in NORAD Canada occupies an exceptional place in Washington's military-strategic plans, while the growth of its military expenditures in 1981-1984 alone was 73 per cent.[3]

Canadians are proud of the fact that the telephone was invented in their country, insulin discovered, that Canadian engineers were among the first to design hydrofoil vessels, that the Telidon two-way videocomputer system adopted in many states was developed by Canadian companies, that the CANDU nuclear reactor is highly valued and used at nuclear power plants in dozens of countries, that the Telesat Canada is operating the most high-capacity communications satellite in the West, Anik C-3, that the US Shuttle spacecraft was equipped with a Canadian-made manipulator, that Canada is the homeland of powerful snowmobiles and various modern machines for use in the Far North, and that its mining, drilling, construction, pulp-and-paper equipment is famous throughout the world.

Table 1

Some Macro-economic Indicators for North America, Western Europe and Japan

	North America			Western Europe		Japan
	USA	Canada	Total	19 largest countries	EEC (the Ten)	
1	2	3	4	5	6	7
Calculated according to the official exchange rate (1983)						
GNP (billions of dollars)	3,305	315	3,620	2,882	2,297	1,157
Share in the GNPs of the industrialised capitalist countries (per cent)	42.2	4.0	46.2	36.8	29.3	14.8
Per capita GNP (thousands of dollars)	14.1	12.7	14.0	7.2	—	9.7
Calculated according to the actual purchasing power of the currencies (1982)						
GDP (billions of dollars)	3,041	—	—	—	2,622	1,254
Share in the GDPs of the industrialised capitalist countries (per cent)	35.9	—	—	—	31.0	14.8
Per capita GDP (thousands of dollars)	13.1	—	—	—	9.7	10.6
1	2	3	4	5	6	7
Net output of the manufacturing industry (1981, billions of dollars, 1975 prices)	446.7	37.0	483.7	467.0*	—	252.6
Net output of agriculture (1982, billions of dollars, 1975 prices)	55.4	8.8	64.2	89.1**	—	25.0
Export (1982, billions of dollars)	212.3	68.5	280.8	701.6	—	138.9
Share in the export of industrialised capitalist countries (per cent)	17.3	5.6	22.9	57.2	—	11.3
Output of electric power (1982, billions of kWh)	2,304	388	2,692	1,743***	—	581
Oil output (1982, millions of tons)	426	62	488	145***	—	0.4
Coal output (1982, millions of tons)	707	22	729	267***	—	18

* 11 largest countries
** 12 largest countries
*** 17 largest countries

Calculated according to: *Statistical Abstract of the United States, 1985*, U.S. Government Printing Office, Washington, 1985, pp. 847, 855-56; *World Development Report, 1984*, Oxford University Press, New York, 1984, pp. 229, 231, 235.

At the same time research and development is regarded as the weakest part of the industrial system, and the technological dependence involved is considered as a consequence of foreign control.[4] It is to be recalled that commercial use of the telephone, insulin and other Canadian discoveries was begun not "at home" but in the USA—and then returned to Canada as imports of foreign-made products.

On one occasion the coming 20th century was called Canada's century. It is now coming to a close, yet the exceptional role of the Canadian nation in the world community is not to be observed. Moreover, possessing unique natural resources the country occupies a largely subordinated, peripheral position in the international division of labour and is forced to fight for its national identity against the powerful economic and political invasion from outside. "Rich, industrialised, underdeveloped country", "the world's wealthiest developing country" is how modern Canada is described despite its clear membership of the club of rich industrial states, the leaders of the capitalist system.[5] Being an "average" imperialist power, Canada, nevertheless, has some qualities of a dependent country, this being a result of its long involvement in imperialist integration as a weaker member.

At the same time the United States was, and is the main industrial power of the capitalist world which possesses a full-blooded, highly integrated and ramified economic structure and an independent and rapidly developing scientific and technical base. As to integration, it undoubtedly strengthened the US economy further providing it with a firm raw material base, creating incentives in the form of an extensive regional market and opening up broad opportunities for profitable and strategically important investment of capital.

It would seem that the regional integration complex rather than just the US economy constitutes the economic foundation on which the strength of imperialism's American centre rests today. It is possible to assert that even at the current phase in North American integration the imperialism of the USA pursues a foreign policy taking into account the combined might of the two countries forming the regional economic complex where the webs of power are in the hands of the leading US monopolies. All this considerably strengthens US positions in the interimperialist rivalry with Western Europe and Japan (See Table 1).

Structural Consequences for the National Economy

During its entire 120-year-long history Canada's economic development was decisively influenced by three quite different factors, all, however, pushing it in one direction.

The first factor has to do with the country's exceptional natural resources. The extensive lands of the prairie provinces, accessible for development and situated in a moderate climate zone, were a natural basis for the rise and progress of productive agriculture largely working for the market. The country's forests, second largest in the world in area and timber resources, opened the way for the development of a large-scale lumbering and pulp-and-paper industry. A variety of rich ores and mineral resources lying at a small depth on the Canadian sheet (the provinces of Quebec and Ontario), the enormous petroleum and natural gas deposits in Alberta, promising iron and copper ore deposits as well as coal in British Columbia directly near the Pacific coastline enabled mining and processing of a broad range of minerals to be conducted on a scale far exceeding the country's domestic needs.

The second factor is due to the demographic situation and the social and psychological traits of the Canadian bourgeoisie. The rather small population concentrated along the southern border constitutes in economic terms a relatively narrow market, but one that from the outset acquired high European and American consumer standards and displayed a demand for approximately the same range of goods as the ten times more numerous population of the neighbouring USA. In this sense, despite any trade and political barriers, the domestic market formed under the decisive impact of the American consumer stereotype—as a specific but genetically related extension of the United States market.

Another contributing feature was the national bourgeoisie, which was formed in the dominating light of the British colonial elite and passed under the leadership of US monopoly capital in the 1920s and 1930s, quickly assuming the role of junior partner in developing the economy of its own country. This is described at length in books published in Canada as well as the USSR.[6] It is to be noted that the financial weakness and low initiative of the Canadian bourgeois, their willingness to be content with secondary roles provided they received a sufficient share in total profits, gave rise to a situation when development of industry was deliberately contracted out to foreigners and Canadian interests proper were concentrated in banking, the utilities, trade and the services. A specific "division of labour" arose and was secured for many decades between the Canadian and the US capitalists on the basis of joint exploitation of Canada's natural and manpower resources.

Although it introduced its changes in the mechanism of this "unequal collaboration", the notable consolidation of the positions and extension of the financial possibilities of national monopoly capital in the postwar period did not abolish it. Only recently have some of the Canadian industrialists acquired a "healthy" business energy prompting them to enter the technological race, attempt to seize their own niche in the world capitalist production of high-technology items, and prevent the scientific and technological revolution from leaving them behind.

And the third, but far from least, factor which has had a profound impact on the country's entire economic development and, thereby, has contributed to the forming of the modern structure of the Canadian economy with all its unique features and shortcomings, is the constant and massive presence of foreign, above all US, capital. This involves not only the field of gravity created by the USA's proximity and reflected in the Canadian market, but rather the direct intrusion into the country by US monopolies with their financial resources, economic interests, technology, management principles and organisational experience.

Before World War II having resolutely squeezed out United Kingdom, US monopoly capital established itself in the Canadian economy, subordinating Canada's national development to its own strategic interests. The latter interests consisted in gaining and holding for itself the Canadian market, flooding it with the products made by its branch plants, taking advantage of the system of "imperial preferences" to penetrate the other markets of the British Commonwealth of Nations with its products and, finally, to create a territorially close and politically reliable raw material base in Canada. The latter aim was particularly alluring, because it involved the opportunity not only of large-scale export of US equipment during the realisation of the resource projects but also laying the basis for a steep expansion of US production specialising in processing Canadian mineral resources, thereby deriving not only raw materials and profits from Canada but also jobs.

In the latter question, the interests of national Canadian and US capital clashed soonest. In regard to forest resources Canada managed to settle the situation in its favour quickly and effectively (back in 1910-1911, a ban was introduced in the country on export of timber which forced the USA in 1913 to abolish the import duty on newsprint opening the way for the unhindered development of the Canadian pulp-and-paper industry). On the contrary, in the mineral field the policy of the US transnationals remains a source of acute contradictions in Canadian-American relations since the US monopolies strive to restrict their part in Canada's mineral production by mining and concentrating the raw materials leaving the real, deep processing for themselves and locating the most profitable highest links of the production chain in the USA.

The extraordinarily favourable political climate and generous tax and other benefits for investing companies contributed to an intensive inflow of capital into the country both in the 1920s-1930s and after the war. Until the 1920s profits from operations in Canada were not taxed at all, and until the second half of the 1960s a lower tax rate on profits in the form of dividends (5 per cent instead of 15 per cent) was applied to the "guests".

Even in the 1970s and 1980s, after the Liberal government introduced state control over new investments and adopted a National Energy Programme, to be dealt with below, Canada's federal and provincial governments continued to apply essentially the same favourable treatment to foreign companies as to national firms. Such a government course in respect to foreign capital, which remained invariable in principle despite the Canadianisation policy officially proclaimed by the Liberals and was even intensified in the last two years of the Trudeau government speaks for itself. When the seats of the ruling party in Ottawa were occupied by the Conservatives, among the first measures of the new cabinet in the economic field was a revision of the system of state control over foreign investments and repeal of the few points in the National Energy Programme discriminating against the US oil monopolies.

In general, regardless of the party in power, the government course unambiguously indicates that national monopoly capital does not intend to put an end to the partnership with the US transnationals in developing the country's economy, but would only like to introduce certain changes in the terms of that partnership reflecting the overall strengthening of its positions both within the country and on the scale of the North American region.

The firm, in some sectors even decisive, positions of US monopolies in Canada's economy and their vast role in determining the direction of its industrial development were largely instrumental in shaping the general scope and specific forms of involving the country in the regional division of labour. The place Canada has been allotted in the North American economy is clearly reflected in the unique structure of its industry, in the strength and weakness of its various components, and finally, in the complicated set of problems facing the country. In an analytic document of the Communist Party of Canada that place is described in the most general terms as follows: "In fact, the world capitalist division of labour has largely assigned Canada the role of being a supplier of raw materials, a role which militates against the creation of jobs in Canada, reinforces the under-development of Canada's manufacturing sector, and worsens Canada's balance of payments problems."[7] This description may be supplemented by the observation that Canada is also regarded as a natural market for the sale of various science-intensive products of the modern manufacturing industry of the USA and of the latter's chief rivals among the industrial powers. Canada's role in the world capitalist economy also involves, in particular, unpleasant consequences for the country, such as relatively low growth rates of the economy and export trade, and low efficiency of many industries capable of holding their own against foreign competitors only due to tariff protection.

The clearly apparent slowing down in economic growth rates leading to a decrease of Canada's share in the world capitalist economy is regarded as a particularly distressing symptom for the country. Thus, if in 1960-1974 the GNP on an average increased 5 per cent a year (in constant prices), and in 1975-1978—3.5 per cent, in 1979-1983 the average growth rate fell to 1.2 per cent—almost a third of the previous figure—and there was virtually no growth in per capita terms (a mere 0.1 per cent a year). However, the latter period included the year 1980 when the GNP growth rate was less than 1 per cent, and the year 1982, acknowledged as the worst in the country's postwar period, when the physical size of the GNP was reduced by 4.4 per cent, the number of officially registered unemployed nearly doubled, and industrial production capacity was one third idle. In 1984 the GNP physical growth rate approached the desired 5 per cent again—a favourable symptom if one overlooks the fact that the boom started considerably earlier in the USA and proceeded much more intensely there.

However that may be, the country's economy passed the test of a worsening world capitalist market only at the price of great effort and extensive losses. Its structural weaknesses were much more clearly demonstrated in the crisis than during the cyclical rise. In all those years inflation was rampant in the country, its rate was on an average about 10 per cent (in 1983, however, it was reduced to 5.8 per cent). So it came out that while the GNP in terms of value increased by two thirds during five years (reaching 388 billion dollars in 1983), in real terms it grew only by 6 per cent (reaching 134 billion dollars in 1971 prices), and nearly 60 per cent of the increase in value is to be attributed to an inflationary rise in prices. Not many countries have demonstrated the phenomenon of stagflation, which has become common for the capitalist world, in such a classical form.

As to the structural aspect, when considered from the viewpoint of the relationship between the two basic spheres of economic activity—production of goods and services—Canada's economy represents a mini-replica of the US economy. The share of the services sphere in Canada is even slightly higher—64 per cent in 1983 and nearly 65 per cent in the crisis year of 1982 when the volume of the goods-producing sphere suffered a relatively greater decline. Such a "post-industrial" character of the national econom-

Table 2

The Structure of Canada's Gross Domestic Product (in constant 1971 prices)

	1971		1981		1984	
1	$ million 2	per cent 3	$ million 4	per cent 5	$ million 6	per cent 7
Gross Domestic Product	83,260	100	121,161	100	124,681	100
Agriculture	2,697	3.2	3,159	2.6	3,239	2.6
Mining and petroleum and natural gas industry	3,146	3.8	3,291	2.7	3,400	2.7
mines	...	...	1,105	0.9	...	...
natural fuel	...	...	1,451	1.2	1,612	1.3
Manufacturing industry	19,041	22.9	26,236	21.7	26,518	21.3
non-durable goods	9,396	11.3	12,758	10.5	12,827	10.3
durable goods	9,645	11.6	13,478	11.1	13,692	11.0
Construction	5,846	7.0	7,478	6.2	6,339	5.1
Utilities	12,280	14.7	16,882	13.9	16,444	13.2
power, gas and water supply	2,194	2.6	3,901	3.2	4,412	3.5
transport and storage	10,086	12.1	7,828	6.5	7,695	6.2
communications	...	...	5,154	4.2	5,157	4.1
Trade	9,806	11.8	15,136	12.5	15,603	12.5
wholesale	4,103	4.9	6,433	5.3	6,562	5.3
retail	5,703	6.8	8,703	7.2	9,040	7.3
Finance	9,589	11.5	16,019	13.2	16,809	13.5
Other services	16,081	19.3	23,876	19.7	25,576	20.5
education	...	...	5,890	4.9	6,088	4.9
health	...	...	6,184	5.1	6,766	5.4
Services as a whole	...	59.4	76,151	62.9	79,725	63.9
Production of goods as a whole	...	40.6	45,010	37.1	44,956	36.1
industry	...	29.2	33,427	27.6	34,330	27.5

Note: The total includes forestry and fishing and also the "contribution" made by government and the military.
Calculated according to *Economic Review*, Ottawa, 1982, p. 152; *Gross Domestic Product by Industry*, Ottawa, December 1984, pp. 2-8.

ic structure remains a purely North American phenomenon. There are no other countries in the world in which the macroeconomic structure even comes close to this model.

Of course, the high share of services in the GDP in itself must be judged as a sign of considerable progress achieved by the country in creating a ramified social infrastructure designed to supplement society's material and technical supply by industry, construction, the utilities and agriculture. However, at least two circumstances should put us on our guard and make us revise such an appraisal.

First of all, the overall share of production of goods in the country's macro-economic indicators, which is slightly more than a third, and the remarkably modest contribution of the manufacturing industry in the GDP (only about a fifth) show that for some reason the natural reserves of industrial growth have not been fully utilised (see Table 2). This is precisely how the specific features of the modern economic structure in Canada are described by Wallace Clement who wrote back in the mid-1970s that the country's "economy changed from primary to tertiary without developing the area of secondary production".[8] In other words, having founded powerful mining, and beginning with the 1960s petroleum and natural gas industries with the active participation and in the interests of foreign capital, Canada has failed to make the next step, i.e. create on that basis a large-scale, ramified and highly efficient manufacturing industry capable of providing the lion's share of supplying society with finished industrial products and creating a sufficient surplus for export. Instead, Canada continues to mostly rely on export of industrial materials, and also food, as a source of foreign exchange to provide for its import of finished goods whose absolute size (particularly in per capita terms) is unparalleled by any other country. It can hardly be considered normal that the share of all manufacturing industries in the GDP is less than one third of the total for the services sphere, whatever its inner structure.

If the inner structure is considered, however, there appear to be serious disproportions and even distortions produced by the most extreme, North American version of private enterprise. Indeed, how else are we to judge the fact that highly important components from the standpoint of society's interests such as the education and health systems are nearly one and a half times weaker in economic terms than finance, which includes, among other things, the insurance and real estate business largely of a speculatory nature. In our view the development of trade is also hypertrophic, its indicators being only slightly lower than those of all the infrastructural sectors included by Canadian statistics in the utilities. Yet the importance of energy, transport and communications in the modern economy is indisputable, and a particularly significant integrational role falls to them in countries with enormous territories and relatively scattered industry, such as Canada.

That purely capitalist imprint on the economy's services sphere which is responsible for nearly two thirds of the GDP is what we regard as the second sign of the imperfection of the country's economic structure and its disproportions for which it pays in insufficiently high overall growth rates and in conflicts and inner contradictions inherent in its economic growth. It is precisely with the "unhealthy" hypertrophy of the national economy's tertiary sector that many Canadian researchers associate the abrupt slowing down of overall economic growth rates and rates of productivity growth in the country. Herman Bones, senior economist with the well-known monopoly, Mobil Oil Canada Ltd., calculated that as much as a third of the entire productivity decline in the Canadian economy is due to this factor.[9]

Structural proportions estimated according to gross value of output in different sectors in constant prices are on the whole confirmed by data concerning the number of employed in sectors. The picture thus obtained is even less ambiguous and, on the whole, rather unusual to the European eye: in employed personnel the ratio between production of goods and services in early 1985 was 1 to 3 and only 20 per cent of all workers were employed in the manufacturing industry.

If the structure of Canadian industry is considered separately the situation does not appear to be really typical of an industrially developed country. Indeed, only slightly over three fourths of its gross output in constant prices (or two thirds if value added is calculated) falls to the manufacturing industries. Moreover, first, the share of the mining, petroleum and natural gas industries calculated in 1971 prices proves to be considerably underestimated, because two abrupt price hikes on fuel and mineral raw materials in the mid and late 1970s are not taken into account. Second, in the resources sectors the export quota is up to 80-90 per cent, while in the manufacturing industry on an average it does not exceed 30 per cent. This means that the international specialisation of Canadian industry in raw materials is retained, and if account is taken of output and export of semi-manufactured goods which are attributed to the manufacturing sectors such a conclusion proves to be even more warranted.

What is known as the secondary manufacturing industry, producing finished goods for the needs of production as well as consumption, apparently remains the relatively weakest sector of the Canadian economy. And third, the resources sectors still draw the overwhelming part of investments in industrial construction and about a third of total outlays on machinery and equipment, while the megaprojects planned for the next few years in the provinces of Alberta and British Columbia and on the Atlantic shelf will require many dozens and even hundreds of billions of dollars of capital investments.

Back in the early 1960s American economist Hugh Aitken wrote about Canada that "the export industries (i.e. resources industries — *A. B.*) themselves have accounted for a relatively small proportion of the total capital expenditures that stimulated expansion.... Yet it is in the export industries that the growing points of the Canadian economy are to be found".[10] The present structure of Canadian foreign trade and industrial investment confirms that the same industries have retained their exceptional role in the mid-1980s as well.

Massive import of capital into Canada by US monopolies in order to set up foreign (branch plant) production was directed initially to the primary sectors—mining of ore and minerals, lumbering operations, and sawmills, and the pulp-and-paper industry. It is notable that the largest share of the primary sector in the Canadian GDP was recorded in 1911—during the first wave of US direct investments having to do with developing the country's mining and forest resources.

The second such wave swept through Canada in the 1950s and 1960s. As a result the share of sectors in industrial production specialised in raw materials and semi-manufactured mineral and forest products rose to 35-37 per cent again (as compared with 29 per cent in 1945—a consequence of priority growth of manufacturing in the years of the Second World War). In the 1950s and 1960s stepped up development of resources sectors was largely connected to the development of the recently discovered extensive petroleum and natural gas fields in Alberta.

It was precisely in the 1950s and the 1960s that the foundations were laid for the modern resources sectors in the Canadian economy. Noting that the latter sectors include chiefly export-oriented production whose output is extensively imported by the USA, Canadian economist Richard Shaffner has indicated that such a situation is natural and predetermined, because "the Canadian mining and forest-product industries have been developed perhaps as much in response to demand in the United States as to demand in Canada". In the same collective research work US economist Jacob Kaplan wrote that "a substantial part of the growth of Canadian mineral production since 1945 has been induced by U.S. demand, financed by U.S. funds, and carried out by U.S.-owned companies".[11] L. A. Bagramov has written that for Americans, Canadian resources "are only a supplement to the industrial complex of the USA which presents a growing demand for imported raw materials both with expansion of production and due to exhausted and more expensive raw materials"[12] in the USA.

In the context of the favourable terms for foreign monopolies applied in Canada until the mid-1960s,[13] the decisive factor in the forming of the structure of the Canadian resources sectors was the US tariff intended to secure the interests of US industrialists. The latter interests consisted in extracting more raw materials in Canada and importing them mostly in an unprocessed shape for further use at their own enterprises.

At the same time, although the first mines operated by US capital were founded in the last century, the real mineral and raw material boom began only after the Second World War. By that time the US protectionist tariff system had been completely formed, and development of Canadian natural resources by US private capital occurred under the influence of that system: extraction and primary processing (concentration) of mineral raw materials were carried on in Canada, while more extensive processing (metal refining and rolling, manufacture of asbestos and cement products and so on) was done at enterprises in the USA.

American interests were also instrumental in the rise of the territorial-production structure of the Canadian petroleum and natural gas industry whose development was overwhelmingly financed by US monopolies. Oil and gas drilling in the west of the country was directed not towards creating a powerful petrochemical industry capable of supplying the domestic market and producing a surplus for export but rather to supplying the adjacent area of the USA with natural fuel. For many years oil refining in the province of Alberta was restricted by the narrow scope of oil product consumption to the west of the borderline passing through the Ottawa Valley. In the eastern areas the same US monopolies set up large capacities for refining imported oil intended to supply the provinces of Quebec, Ontario and the Atlantic coast, including a number of states in the Northeast of the USA. Until the mid-1970s these monopolies consistently blocked the idea of building the Sarina (Alberta)-Montreal oil pipeline, and only fundamental changes in the overall energy situation laid the ground for rejection of the lopsided scheme involving the Canadian petroleum and natural gas industry in the global (continental and even broader) system of production, sale and processing of natural fuel controlled by the famous American Sisters.

The extremely high (as some see it, even hypertrophic) development of the resources sector in Canada is probably the clearest manifestation of the specific division of labour between the two countries within the regional economic complex. Being based on product, sectoral and intrasectoral specialisation, such a division of labour ("general" and "particular") is increasingly supplemented in our day by division of labour "in singular" having to do with intracompany cooperation and the vertical integration of specialised production.

As regards North America, apparently, we may speak of two basic types of vertical production integration within the resources sector monopolies, whether transnationals with headquarters in the USA or national companies with production capacities to both sides of the Canadian-American border.

The first type involves a production chain from raw material to finished product (newsprint, rolled aluminium, construction steel, oil products and so on) with all the basic components situated in Canada. The other type of vertical integration within the transnationals' production complex has an international character, and the primary stages (ore mining, production of metal concentrates and so on) are as a rule located in Canada, and the subsequent ones, having to do with more extensive processing, in the USA. It is not important whether the given monopoly is controlled by US capital and which part of its finished output is intended for the US market. The thing significantly distinguishing the two types of vertical integration is their far from equal contribution to the national economy and the general economic indicators — the size of the value added to the GNP, the effect on employment and so on.

Let us explain this on an example. According to computations made by experts with the Noranda Mines monopoly, in the second half of the 1970s about 44 per cent of the value added in manufacturing copper wire was in mining and primary concentration of the ore, 15 per cent in smelting and refining and 41 per cent in making rods and drawing the wire. In the total employment, respectively, at the monopoly's enterprises manufacturing copper wire, 29 per cent were employed in mining and producing the concentrated ore, 11 per cent at the copper smelting plants and 60 per cent at enterprises making the finished product.[14] Thus, if in Canada the monopoly's operations are confined, say, to mining and concentrating the ore, it provides the country with less than a third of the employment and less than half the value added as compared with a monopoly of the same scale with the entire integrated production complex in Canada. The relocation of capacities for smelting and refining to Canada would not improve the situation much either. At the same time which country would get nearly two thirds of the employment at the monopoly's enterprises and two fifths of the value added depends on the location of the upper links of the chain (in this case the making of the wire).

It follows from the above that objectively it is in the interests of a country possessing the natural advantage of large-scale mineral deposits to locate the fullest possible set of vertically integrated production links on its own territory.

The direct impact of different stages in processing mineral resources on employment and the GNP was considered above. But there is also an indirect influence due to orders placed in national industry during the development of a deposit, building of smelting and rolling mills and so on (the backward effect), as well as the benefits derived by the secondary manufacturing industry (in our case, for example, electrical engineering) from the appearance of an effective local source of supply of highly manufactured industrial products (the forward effect).[15] It has been shown that such influence has more to do with the upper links of the production chain than its lower parts. In other words, if a country specialises mostly in rough, almost unprocessed raw materials exporting them abroad extensively, with them it "exports" an unrealised economic effect which goes to the importing country.

That is largely how the division of labour within the mining and primary processing industries of the region has been shaped, clearly falling into two national parts according to enterprise location and conditions of domestic and export sales, yet considerably integrated in terms of capital, and also as a result of long-term cooperation links. It is only natural that this does not satisfy Canada, abundantly endowed with natural resources but constantly feeling the inadequacy and even inferiority of its production structure, and in recent years, in addition, increasingly realising the fact that its fuel, energy and mineral wealth is non-renewable.

In the early 1960s Hugh Aitken wrote: "United States investment in Canadian resources has created a new frontier of development in Canada; but it also seems likely to convert Canada into a hinterland of United States industry".[16] And a conveniently located and extremely reliable hinterland it is, we would add, a "secure source of supply, analogous to domestic production".[17]

We do not ignore the obvious positive influence which in historical retrospect the development of raw material export industries has had on general economic growth in Canada and its industrialisation rates. Yet we cannot but agree with those who point to this basis of the growth of Canada's economy as a source of its weakness, resulting in "an economic structure lacking the proper mix of activities required in a truly advanced industrial nation".[18]

An excessively high share of raw materials in a country's industrial output and export makes the national economy more vulnerable to market forces. As Jacob Kaplan aptly put it, "The demand for raw materials responds more than proportionately to variations in the level of economic activities, creating a particularly strong transmission effect on the Canadian economy".[19] In our day the resources sector is associated with a whole range of negative ideas deeply seated in public opinion. Raw material production involves ecological damage and domination of foreign capital, and is a source of the overall subordinated position of the country with respect to the USA; the tax revenues from these activities are not great, and they contribute only marginally to employment growth; they consume a great deal of capital which is returned slowly, and besides, profits largely go into the pockets of foreigners, and so on.

When calculated in current prices, the total value of the mining industry's output in 1983 was 36 billion dollars or nearly 12 times more than the figure in 1971 prices and more than 10 per cent of the GNP instead of 2.6 per cent. This shows how misleading the figures (Table 2) may be for this sector as a whole and, particularly, for extraction of natural fuel. Moreover, natural fuel production constitutes an overwhelming part of the whole sector's output in recent years (25 billion dollars' worth in 1983 or 69 per cent).[20]

Within the manufacturing sector the output is divided almost equally into two parts: non-durables (food, clothes, footwear, textiles, industrial rubber goods, pulp-and-paper and chemical items) and durables (machines and equipment, smelting and metalworking products, products of non-metal mineral processing, forest industry products). Data concerning divisions in this sector for 1981 are contained in Table 3.

Table 3

Sectoral Structure of the Manufacturing Industry (1981)

Sectors	Number of enterprises	Number of production workers (thous.)	Output produced and delivered		Value added		Output in 1971 prices	
			$ million	per cent of total	$ million	$ thous. per one worker	$ million	per cent of total
1	2	3	4	5	6	7	8	9
Manufacturing industry including:*	35,780	1,337	190,940	100	73,892	55.3	26,236	100
food and beverages	4,492	159.7	31,842	16.7	9,562	59.9	3,253	12.4
technical rubber and plastic products	1,103	45.7	4,513	2.4	2,052	44.9	878	3.3
leather	415	22.6	1,219	0.6	591	26.2	193	0.7
textile	952	53.3	5,060	2.7	2,229	41.8	899	3.4
clothing	2,125	83.4	4,090	2.1	2,097	25.1	746	2.8
wood industries	3,394	94.3	8,441	4.4	3,379	35.8	1,224	4.7
paper and allied industries	758	99.5	15,729	8.2	6,943	69.8	1,985	7.6
printing and publishing	4,508	64.0	6,463	3.4	4,017	62.8	1,594	6.1
primary metals	439	92.3	14,449	7.6	5,746	62.2	2,077	7.7
metal fabricating	5,072	120.4	12,376	6.5	5,929	49.2	2,140	8.2
machineries industries	1,620	70.8	8,689	4.6	4,214	59.5	1,731	6.6
transport equipment	1,121	84.3	8,938	4.7	4,643	55.1	1,877	7.2
non-metallic mineral products	1,574	40.1	4,769	2.5	2,429	60.6	894	3.4
petroleum products***	111	8.5	20,276	10.6	2,694	317.0	270	1.0
chemical	1,232	46.4	13,190	6.9	5,596	120.6	1,797	6.8
miscellaneous	2,916	48.4	4,053	2.1	2,017	41.6	728	2.8

* The sum total does not yield 100 per cent, because the set of industries is not complete.

** Including motor vehicle assembly—1,377 million dollars (5.2 per cent) and manufacture of parts and assemblies for motor vehicles—743 million dollars (2.8 per cent).

*** Including coal products.

Calculated from *Gross Domestic Product by Industry,* December 1984, pp. 3-6; *Statistics Canada Weekly,* June 24, 1983.

In principle the Canadian manufacturing industry falls into two large parts, differing significantly in genesis, marketing and efficiency. One part consists of numerous, as a rule, relatively small and hardly specialised enterprises of the consumer and food industry, metal fabricating, lumber processing and the furniture industry, machinery and electric products industries. For the most part these enterprises were set up by national capital for the domestic market (often even the market of one province, area or city), exist due to tariff protection, renew their range of products slowly and have fairly low productivity. The fact that comparatively many subsidiaries of foreign firms operate in machinery industry and a considerable part of its output is exported does not change the situation, since enterprises of lower than optimal size prevail here with hardly any specialisation and low productivity (except for farm equipment).

In general there are quite a few enterprises in this group controlled by foreign capital, and one should not think that they differ too greatly from national ones. In some respects such enterprises are often even more backward, because, for example, they do not have their own research and development, relying on their parent firms to obtain technology. Many of them constitute a mini-replica of the production structure of the parent firm. Being several times smaller, they produce the same or nearly the same range of products as the parent firm which makes their economic performance and quality of output much worse.[21] All these facts have been extensively analysed in Soviet economic literature.[22]

The other group includes, as a rule, much larger and more specialised enterprises in the rubber, petroleum, chemical, and transportation equipment industries, most of which are controlled by foreign capital. All these sectors except for the oil refining industry are distinguished by high export quotas and have production capacities exceeding by far domestic demand. These also include the sawmills, pulp-and-paper, iron and steel, non-ferrous metals companies even to a larger extent oriented to export, but, as a rule, controlled by national capital. These manufacturing industries (and also the food industry) were the first which Canadian capitalists who made the plunge into industrial business began to develop. They were also most involved in the wave of mergers and takeovers at the end of the 1970s many of which were aimed largely at extending control by national capital over the leading companies in a sphere that has become traditional for them (and also over oil and gas companies to be dealt with in further detail in the next chapter).

The distinguishing feature of this group is that enterprises tend to be of the optimal size and mass-produce a relatively narrow range of products, mostly industrial semi-manufactured products and such special finished goods as automobile tires and newsprint, on the one hand, and motor vehicles and aircraft, on the other. The reason they are specialised and, as a rule, approach optimal size is that they cater not to the narrow domestic market but to the market of the entire northern part of the continent which is at least ten times larger. It is even possible to draw the following conclusion: a manufacturing enterprise of the modern optimal scale cannot appear in Canada in principle unless it is oriented from the very outset to export markets.

The enterprises of this group typify industrial Canada and determine its position in the regional and the world economy. Those are the enterprises implied when reference is made to the high efficiency and competitiveness of Canadian export production. But they are also marked by many of the general shortcomings of national industry—small-scale research and development, dependence on foreign technology, outdated management structure, insufficient qualification of managers, etc.

As to international comparison, it may be pointed out that Canada obviously lags behind other industrialised states with a market economy in modern science-intensive production sectors. According to UN statistics in 1980 such sectors accounted for 23 per cent of the net output of the Canadian manufacturing industry as against nearly 40 per cent in the USA and 33 to 36 per cent in Italy, France, Japan, United Kingdom and West Germany. Canada was particularly far behind the USA (approximately two thirds less) in the share of the high technology sectors—manufacture of computers and office equipment (0.6 per cent), precision engineering (1.0 per cent) and also aerospace (2.3 per cent, the share was half the American).[23]

This is also confirmed by data contained in the latest book by Peter Morici, a prominent expert in Canadian-

American relations. According to his calculations the share of technology-intensive goods in the net output of Canada's manufacturing industry was 32 per cent as against 47 per cent for the USA and 44 per cent for West Germany. At the same time the share of the net output of standardised goods is much larger (50 per cent as against 37 per cent for the USA and 43 per cent for West Germany), while the contribution to the value added of labour-intensive goods was approximately the same for the listed countries (7-8 per cent).[24]

Finally, and this is a very important point to make, the historical specifics of the modern economic structure with its massive presence of US capital and export orientation towards the continental market serve in our day as a factor severely restricting any opportunities for the structural improvement, rebuilding and modernisation of the economy. As Morici has written, progress in the field is complicated by Canada's "asymmetrical trade and investment relationship with the United States".[25]

Phenomena Accompanying Periphery Development

As has already been pointed out, integration processes are developing on the North American subcontinent between countries that are difficult to compare in terms of overall strength and macro-economic parameters. That is why, developing on a capitalist basis, i.e. mostly spontaneously, integration naturally brings its participants far from equal results. There is sufficient evidence showing that the weaker and more passive party gains relatively fewer advantages and acquires unproportionately many social and economic liabilities and lost opportunities.

There is no denying the fact that as part of the regional "hyperstructure" in the last two or three decades Canada has "moved up" to the advanced US level in most relative indicators, primarily per capita GNP and social labour productivity. But it has paid a high price: its economy has essentially become a subordinated segment of the North American market, a continuation of the fuel and raw material base of US industry, while its manufacturing (secondary) sector has assumed a branch-plant relationship to the USA and a truncated nature with regard to the correlation between its individual structural components and development parametres.

Similarly, the levelling out of the two countries' basic macro-economic indicators—a sign of Canada's overall progress and simultaneously far-advanced integration—is observed not only in the "good" economic indicators favourable for the country but also the "bad" ones pointing to troubles such as the unemployment level, inflation rate, idle production capacities and so on. All these indicators in Canada are very close to those in the USA and even tend to "run ahead", because within an integrated regional economy the outer impulses coming from the powerful, but in many respects afflicted economic body of the USA combine with inner impulses to strengthen negative processes in the national economy. No wonder, then, that the inflationary rise in prices in the country in some years reached two-digit figures, and unemployment regularly exceeds one tenth of the hired labour. US economist Robert Gilpin has written: "With greater integration between the two economies, the deleterious spillovers from the American core into the Canadian periphery have increased in the form of unemployment, idle plants and other economic dislocations"[26].

There is a notable synchronisation of economic processes within the integrated structure occurring parallel to the levelling out of the main economic indicators. Soviet economists L. A. Bagramov and V. V. Popov have indicated: "Enormous masses of goods and capital moving from north to south and from south to north have made the business cycles in the two countries synchronised. Changes in stock exchange and unemployment rates, industrial output and prices in the USA and Canada differ no more than, for example, the relevant figures in California and North Dakota".[27] Taking advantage of the integrated character of the economies, American monopolists often "export" a considerable part of the negative consequences of crises into neighbouring Canada. Maurice Rush, a member of the Central Committee of the Communist Party of Canada, wrote in 1981: "Canada is also faced with the problem of growing de-industrialisation as U.S. monopolies shift the effects of the crisis onto the backs of the Canadian people by shutting down branch plants in Canada and shifting them to the U.S. or other parts of the world where bigger profits can be made because of low labor and raw material costs".[28]

Hardly to be suspected of being biassed with respect to integration with the USA, Canadian experts of the C.D. Howe Institute wrote that the latest tendencies in Canadian economic policy and the economy as a whole were largely determined by developments in the USA. And slightly further up they noted that Canada had few devices left to absorb the impact of economic processes in the USA.[29]

That impact is hardly comparable in scale, intensity and consequences to the influence Canada is capable of exerting on the US economy. Indicating the extremely close interlocking of the two countries' economic structures, Morici wrote that a change that "increases spending by government, investors, or consumers, by 1% of GNP will in three years lead to an increase in Canadian GNP of 0.86%. A similar change in Canadian spending would increase US GNP by only 0.13%".[30] In the early 1960s when integration processes had not assumed the scope they have today R. J. Wonnacott estimated that Canada was 12.5 times more sensitive to changes in demand in the USA than the American economy with regard to relevant changes in Canada.[31]

Y. V. Shichkov has noted: "Under all circumstances the stronger national production complex would be relatively less involved in both the global and the regional system of these (world economic — *A. B.*) relations than the national complex of a smaller country".[32] With all the ensuing consequences, and hardly only positive ones for the smaller countries, we would add.

The problem of uneven and disproportionate development also has a territorial-spatial dimension. Soviet researchers point out: "Canada's integration with the United States has regionalised the Canadian economy and led to the strengthening of vertical and weakening of horizontal ties".[33]

This is what the historians V. A. Tishkov and L. V. Koshelev have to say on the matter: "The East-West structure of economic relations that has existed for a long historical period was destroyed in the course of the economic convergence with the USA in the last decades. The 'regional economy' founded on links between Canada's provinces and US states was established instead of the former so-called wheat economy based on relations between Canada's western and eastern provinces. Certain economic areas of Canada have turned into dependent appendages of the American economy...

"As a result of continental integration the Canadian economy was split up into subregions in effect serving the American 'mainland'".[34]

In the course of integration it has turned out that "the tendency is for polarization effects to predominate over spread effects".[35] The country sees the rise of highly focussed production enclaves belonging to American monopolies seeking to deepen the division of labour and establish firm relations in production and distribution of output not only with the immediate economic environment but rather with the economic complex of the neighbouring country. In this sense regional integration is a factor not only opposing integration of the inner (national) economic structure but even giving rise to centrifugal, de-integrating trends in it. There is no doubt that all this (including the far from even distribution of benefits from integration between the separate areas) whips up parochial moods in the provinces, develops a trend towards separatism objectively contradicting the country's national interests.

It would also seem that North America's integration experience gives ground to doubt the universal validity of Y. V. Shishkov's conclusion that the hypothetical final point in regional integration is the "setting up of a regional economic entity under which the level of international socialisation of production practically attains the average national level of socialisation in the given region".[36] It is precisely due to integration that the level of socialisation of national production in Canada is already higher than in the USA today or than on an average in the region, while the degree of the Canadian economy's inner integration is significantly lower as compared with longitudinal links between the Canadian provinces and US states and also in comparison with the national economic structure of the USA.

Although the statistical data confirming our view are not available, it is highly likely that in certain parts of the region (for example, Ontario-Michigan, Quebec-New York or Vermont, Alberta-North Central states) stable south-north economic relations are more intensive today than latitudinal links not only within Canada (for example, Ontario-Manitoba-Saskatchewan-Alberta) but also in the northern part of the USA (Washington-Montana, North Dakota-Minnesota), and apparently, in the country as a whole. The point is that the main part of Canadian industry working for the US market is located in the zone bordering on the USA (south Ontario, Quebec and Alberta); hence, economic structures in the relevant provinces and states are highly complementary, and the division of labour between them is developed more strongly than in the region as a whole or in each of the two countries. That is why it is hardly always true that the maximum level of synchronisation of dynamic indicators or equalisation of structural indicators within the region, as Y. V. Shishkov believes, cannot be higher than the average level of synchronisation or equalisation of relevant indicators between different areas in the countries and between the countries of the given integration complex.[37]

It would seem generally that average indicators of various kinds, including indicators of structure standardisation and process synchronisation, are not very valuable in application to the world capitalist economy and the regional economy, highly integrated as it may be. As it is within separate countries, economic relations in integrated regions tend to polarise within major industrial centres and between them, and these highways of economic interaction determine, as we see it, the general appearance and most important characteristics of the relevant economic structure.

In summing up the pros and cons of regional integration for Canada, researchers in both countries make out long lists of consequences of the presence in the country of ramified production facilities belonging to hundreds of American transnationals, the economy's orientation towards foreign markets, strong dependence on import and so on.

Many of them mention as a positive effect the conveniences having to do with exchange of Canadian oil and natural gas for American coal, and also exchanges of the oil-for-oil and gas-for-gas type achieving economy in transportation and better supply of energy-poor areas with fuel. As to the manufacturing industry it is noted that new technology is relatively easily accessible to Canadian branch plants of US transnationals, which helps these plants to save a great deal on their own research and development, that these branch plants are able to use the sales network of the parent companies in the USA, and that American companies' production in Canada is more efficient than that of the national firms (in particular, in value added per one employee).[38]

When reference is made to negative consequences the list becomes much longer. Here are only a few arguments offered by critics of the present state of American-Canadian economic relations. The Canadian economic structure is weighted down by disproportions, raw materials are being pumped out of the country, mineral deposits are being exhausted, while the main advantages from processing go to the US transnationals which have imposed a vertical type of integration on Canada with the higher links in the production chain located in the USA. The branch plants of American monopolies in many sectors of the secondary manufacturing industry are marked by the same weak specialisation, bloated range of products and low efficiency as the national ones. As a rule the former are forced to build their export policies on instructions from the parent companies, which, in a number of cases, greatly restricts their initiative. The technology transferred through intra-company channels is often outdated and is not free of charge. According to some estimates the branch plants of American companies spend on an average two times less on their own research and development than national Canadian companies, which, taken the country's considerable lag in this sphere, does not hold out anything promising. They consume relatively more imported products (mostly finished goods), applying unnecessary pressure on the country's trade and balance of payments and so on and so forth.[39]

According to EEC experts, in most cases for countries exporting capital the negative effects of the transnationals' activities are usually short-term, while for countries where the transnationals' branch plants are located the negative effect may be medium- or long-term.[40] It would seem that this fully holds for North America where the stronger side serving as the chief source of investment capital suffers the fewest losses and gains the most benefits.

The Canadian public is particularly concerned about the country's obvious lag in science and technology. According to some estimates, for example, in 1977 industrial research and development was carried on in Canada by 21,500 experts, i.e. (per capita) only a third of the number in Sweden, West Germany or Japan and half of the number in the USA, the Netherlands or France.[41] As the president of a prominent engineering company Camco Inc. said, in the level of technology Canadian industry lags behind American industry on an average by 5-6 years, reflecting its "secondary", acquired nature. It has also been counted that the education of the average Canadian manager was inferior to that of his American counterpart, and Canada had hardly reached the 1940 American standard regarding the share among managers of persons with university degrees at the beginning of the 1970s. Correspondingly, the approximately 25 per cent gap in average productivity between the foreign and national companies operating in the Canadian manufacturing industry was associated largely with the difference in the professional skills of the managers.[42]

In speaking of the consequences of regional integration for Canada, it is also appropriate to point out that in the postwar decades far from all the direct investments of the USA in that country had to do with building new mines, plants, etc., i.e. with expanding industrial production capacities. In other words, the big sale of the country's natural resources was accompanied by the increasing use of American transnationals' investments in a form that was the least productive from the viewpoint of Canada's economic interests whereby they were used not for setting up new production capacities but for purchasing local enterprises to extend the sphere of American control over national industry.

All things considered what is the final verdict to be passed on integration for Canada? Canadian economists Kal Holsti and Thomas Levy believe that "deals with the United States seldom bring to Canada benefits commensurate with the costs".[43] In principle, we tend to agree with them. It is a result of what S. Clarkson calls the "satellitic nature" of Canadian-American relations flowing naturally from "dependent continental integration".[44]

It only remains to be pointed out that just as the export of US capital served as the chief generator of integration processes in the region, it is also associated with the main negative consequences of integration for Canada. But the issue of the presence of American capital in the country is so complex, politically explosive and contradictory that it should be treated specially.

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*. Vol. 22, p. 243.

[2] *Communist Viewpoint*, Vol. 3, No. 4, July-August 1981, p. 35.

[3] "Report on the Nation: The New Realities", Supplement to *The Financial Post*, Winter 1983/84, November 26, 1983, p. 88.

[4] See: J. M. Britton, J. M. Gilmour, *The Weakest Link. A Technological Perspective on Canadian Industrial Underdevelopment*, Ottawa, 1978, p. 83.

[5] Kari Levitt, *Silent Surrender. The American Economic Empire in Canada*, Liveright, N. Y., 1971, p. 127; *The United States, Canada and the New International Economic Order*, ed. by Erwin Laszlo, Joel Kurtzman, Pergamon Press, N. Y., 1979, p. 73; *Canada and the United States: Transnational and Transgovernmental Relations*, p. 268.

[6] See, for example: Wallace Clement, *Continental Corporate Power. Economic Elite Linkages between Canada and the United States*, Toronto, 1977; *Canada-USA: Economic and Political Relations*, Nauka Publishers, Moscow, 1983 (in Russian).

[7] *A New Course for Canada. Submission of the Central Executive Committee, Communist Party of Canada, to the Royal Commission on the Economic Union and Development Prospects for Canada*, published by the Communist Party of Canada, October 25, 1983, Toronto, p. 14.

[8] Wallace Clement, *op. cit.*, p. 96.

[9] *Financial Times of Canada*, October 11, 1982, p. 9.

[10] Hugh G. J. Aitken, *American Capital and Canadian Resources*, Harvard University Press, Cambridge (Mass.), 1961, pp. 105-106.

[11] *Natural Resources in U. S.-Canadian Relations*, Vol. I, pp. 20, 339.

[12] *Canada on the Threshold of the 1980s. Economics and Politics*, Nauka Publishers, Moscow, p. 56 (in Russian).

[13] As distinct from Canada, in Mexico, for example, the ground for adopting basic legislation establishing the way national natural resources were to be used was prepared by the 1910 revolution, which was clearly of an anticolonial nature. According to the 1917 Constitution, ownership of natural deposits passed to the state. The country's oil industry, for example, was nationalised in 1938.

[14] *Canada-United States Relations*, Vol. II, p. 33.

[15] *The Academy of Political Science. Canada-United States Relations*, ed. by H. E. English, p. 82.

[16] Hugh G. J. Aitken, *op. cit.*, p. 113.

[17] *Natural Resources in U. S.-Canadian Relations*, Vol. I, p. 111.

[18] *Ibid.*, p. 203.

[19] *Ibid.*, p. 115.

[20] *Canada's Mineral Production*, published under the authority of the Ministry of Supply and Services Canada, Ottawa, 1983, pp. 4-9.

[21] See, for example: *Financial Times of Canada*, October 11, 1982, p. 13.

[22] See, for example: B. I. Alyokhin, *Canada: Monopolies and the State's Policy in Science* (Chapter I), Nauka Publishers, Moscow, 1982 (in Russian).

[23] *Industrial Statistics Yearbook, 1981*, Vol. I, United Nations, New York, 1983, pp. 80, 184, 205, 291, 305, 574, 590.

[24] Peter Morici, *The Global Competitive Struggle: Challenges to the United States and Canada*, C. D. Howe Research Institute, Toronto, 1984, pp. 117-19.

[25] *Ibid.*, p. 82.

[26] *Canada and the United States: Transnational and Transgovernmental Relations*, p. 271.

[27] *Canada on the Threshold of the 1980s: Economics and Politics*, p. 38.

[28] *Communist Viewpoint*, Vol. 13, No. 4, July-August 1981, p. 38.

[29] *Policy Review and Outlook. 1980. Investing in Our Own Future*, A Staff Report, Montreal, 1980, pp. 9, 8.

[30] Peter Morici (assisted by Laura L. Megna), *Canada-United States Trade and Economic Interdependence*, C.D. Howe Research Institute, Montreal, 1980, p. 9.

[31] R. J. Wonnacott, *op. cit.*, p. 91.

[32] Y. V. Shishkov, *op. cit.*, p. 277.

[33] *Canada on the Threshold of the 1980s: Economics and Politics*, p. 32.

[34] V. A. Tishkov, L. V. Koshelev, *A History of Canada*, Mysl Publishers, Moscow, 1982, p. 198 (in Russian).

[35] *Canada and the United States: Transnational and Transgovernmental Relations*, p. 261.

[36] Y: V. Shishkov, *op. cit.*, p. 53.

[37] *Ibid.*, p. 89.

[38] B. W. Wilkinson, *Canada in the Changing World Economy*, pp. 73-74; S. Globerman, *U.S. Ownership of Firms in Canada*, Montreal, 1979, pp. 17, 18.

[39] B. W. Wilkinson, *op. cit.*, pp. 68-70, 74-75; *A Citizen's Guide to the Gray Report*, Toronto, 1971, pp. 56-107; *Canada and the United States: Transnational and Transgovernmental Relations*, pp. 54-57; S. Clarkson, *op. cit.*, p. 98.

[40] After Y. V. Shishkov, *op. cit.*, pp. 161-62.

[41] *Financial Times of Canada*, November 9, 1981.

[42] *Financial Times of Canada*, February 21, 1983.

[43] *Canada and the United States: Transnational and Transgovernmental Relations*, p. 305.

[44] S. Clarkson, *op. cit.*, pp. 164, 12.

Chapter Four

Internationalisation of Capital: Its Scope and Contradictions in the North American Region

Indicated by Lenin at the turn of the century, the trend for export of capital (particularly in its production form having to do with foreign enterprise) to turn into the highway in the development of capitalism's international economic relations was highlighted in the postwar decades which were marked by growing internationalisation of economic life. Under the impact of the most profound changes in the world capitalist economy, transnational themes have come into fashion. In recent years numerous works have been published on both sides of the Atlantic in which the authors write about a world economy founded on intensive development of trade between states turning into a global economy whose basic units are not national economies and companies but rather international corporations with their directly international production and served by large-scale intracompany exchange.

Such books have also appeared both in Canada[1] and about Canada.[2] Canada is regarded by Duncan Cameron, a researcher at Ottawa University, as "perhaps the first state in which the signs of a developing global economy appeared", quite reasonably noting further on that "the transnationalization of the Canadian economy had important implications for Canada's position within the world economy".[3]

As mentioned above, seeking to explain massive foreign investment from the standpoint of the internationalisation theory, Alan M. Rugman resolutely puts the desire to overcome tariff and other obstacles in the way of the export of goods directly from the country of origin in first place among factors determining the scope and direction of that investment. Not considering sale of licences a viable alternative to foreign investment since this form does not provide for technological monopoly and sufficient financial yield, he contrasts it to the setting up of a network of the companies' own controlled enterprises in different parts of the world serving various segments of the international market and enabling a differentiated price policy to be pursued. The reasons listed for creating their own production abroad include the desire to expand to the utmost the sphere of use of the company's monopoly advantages (in technology, management, research, etc.), counting on a broader sales market and an opportunity to take part in horizontal (sectoral) integration in the country they operate in, savings in production costs (for example, in view of cheaper labour or loan capital), an opportunity to evade taxes by redistributing profits among subsidiaries and the use of transfer prices, and finally, the company leadership's ambitions and considerations of prestige.[4]

Rugman's book is intended primarily for the Canadian reader. All the more significant that the author did not even mention one of the two undoubtedly principal motives due to which for many decades there was an intensive inflow of American monopoly capital—the desire to gain access to the rich natural resources of Canada and set up an external raw material base in the north of the continent.

This is not a chance omission. If formerly foreign investment analysts regarded Canada almost exclusively as an object of expansion—as such the country attracted capital precisely due to its natural wealth and low supply of the local bourgeoisie's finished industrial goods on the domestic market protected by rather high tariffs—in the last few decades Canada itself has become a major and rapidly growing exporter of capital, which explains the new angle and system of priorities in analysing the country's involvement in the internationalisation of capital and production.

International flows of investment capital are increasingly moving in both directions between countries in the developed capitalist group, and more and more of these flows involve setting up science-intensive and high-tech industries abroad. Canada has become actively involved in these processes, which is reflected in the priorities set by Rugman. It is also clear why he lays emphasis on tariff, or rather trade-political considerations: internationalisation of capital is developing against the background of acute struggle between protectionist and neo-free-trade trends in the world capitalist economy, in a context of tough competition between the imperialist centres each of which has been involved to some extent in processes of economic integration.

Continuing Domination of US Capital

It would be logical and historically justified to begin an analysis of international interlocking of monopoly capital in the continental economy with a description of the present positions of foreign, chiefly US, capital in Canada's economy.

The powerful inflow of foreign capital to Canada as early as the first decades of the century was due to a number of factors, many of which were mentioned above. In 1901-1905 about a fifth of the gross capital formation in the national economy was financed from foreign sources, in 1906-1910—on an average two fifths, and in 1911-1915—up to a half.[5] There were 450 subsidiaries of American companies operating in the country in 1913.

In the postwar period the share of capital imported into the country in gross investments was about one fifth or one fourth, however, the foreign resources used for the purpose grew in absolute terms tremendously (from 1.5-3 billion dollars in the early 1950s to 10-12 billion by the end of the 1970s). As to the proportion of foreign financial resources (including reinvestment of the profits of American transnationals' branch plants) in the net growth of the Canadian economy's basic assets, since the mid-1970s they have constituted from 24 to 30 per cent.[6]

Foreign long-term investment in Canada totalled 85,400 million dollars at the end of 1980. More than 75 per cent of this astronomical figure was accounted for by American holders (22 per cent by Western European countries). Overall foreign direct investments in Canada were estimated in the same year at 61,600 million dollars, of which nearly four fifths were US investments (48,700 million dollars). An overwhelming part of American direct investments were located in the manufacturing sector (21,100 million dollars), petroleum and natural gas (13,300 million) and mining (3,600 million).[7]

An investigation of the dynamics of foreign long-term investment in Canada over 50 years as distributed by types of investment and groups of countries enabled us to make several interesting observations.[8] First of all, the overall sum of American investment exceeded the United Kingdom's in the early 1920s. Parity between the sum of direct and portfolio investment in the structure of aggregate assets belonging to the United Kingdom and the other countries (except the USA) was first achieved at approximately the same time—in the early 1960s, while in the structure of American investment in Canada direct investment came to prevail as early as 1950. The share of the USA remained the highest in direct investment (about 80 per cent as against approximately a third in portfolio investment). In the postwar period the USA thus accumulated the absolutely and relatively largest sum of long-term investments in Canada, and their prevailing part was directly in the production sphere; their participation in the stock capital of companies operating in the country was, as a rule, sufficient to control them. The United States acquired a particularly overwhelming margin over the other investor countries in the Canadian manufacturing industry—85 per cent of the total. In both absolute and relative terms the prevailing investments are under the heading iron and steel, to which virtually all the engineering industries including transportation equipment are attributed (see Table 4).

As regards US direct investments, these data may be somewhat updated and specified (see Table 5). In particular, it is possible to establish that the lion's share of American investment involving control over the Canadian economy was still concentrated in the manufacturing industry, that the assets owned by monopolies dominating the production of transportation equipment in the North American subcontinent, including the automotive Big Three, obviously stood out in size, that despite a slight setback in the early 1980s, investment of US oil giants remained at a sufficiently high level, and finally, that there were large American investments in non-banking institutions of the financial sphere (the first fiddle here is, of course, played by the life insurance companies).

Albeit with a large time-lag, Canadian statistics feature data on geographical distribution of direct investments in the Canadian economy by regions and investor countries specifying the nominal size of their property and general scope of the assets belonging to the companies they control.

Table 4

Distribution of Foreign Direct Investment in Spheres of the Economy (1980)

	All countries $ million	USA $ million	USA per cent	United Kingdom $ million	United Kingdom per cent	Other countries $ million	Other countries per cent
Manufacturing	24,793	21,108	85.1	1,770	7.1	1,915	7.7
food	3,581	2,845	79.5	348	9.7	388	10.8
textiles	588	467	79.4	94	16.0	27	4.6
wood, pulp-and-paper	3,984	3,140	78.8	371	9.3	473	11.9
iron and steel*	8,113	7,462	92.0	277	3.4	374	4.6
non-metallic mineral products	986	633	64.2	110	11.2	243	24.7
chemicals	4,607	3,927	85.2	445	9.7	235	5.1
other industries	592	508	96.0	7	1.2	17	2.9
Petroleum and natural gas	16,803	13,346	79.4	1,028	6.1	2,429	14.5
Mining and ore processing	4,642	3,557	76.6	362	7.8	723	15.6
The utilities	540	497	92.0	6	1.1	37	6.9
Trade	4,670	3,546	75.9	520	11.1	604	12.9
Financial sphere	7,823	4,766	60.9	1,440	18.4	1,617	20.7
Other business	2,366	1,864	78.8	207	8.9	295	12.5

* Including metal-working to which machinery and other engineering industries are attributed in this classification.
Calculated according to: *Canada's International Investment Position, 1979 and 1980*, Ottawa, July 1984, pp. 70-72.

Table 5

Structure of US Direct Investment in Canada (end of 1983)

	US $ million	per cent
Total	47,538	
Including:		
Mining	2,112	4.4
Oil	10,874	22.9
Manufacturing	19,849	41.8
food	2,179	4.6
chemical	3,944	8.3
smelting and metalworking	1,474	3.1
machinery	2,327	4.9
electrical products	1,624	3.4
transportation equipment	3,242	6.8
other industries	5,059	10.6
Trade	4,256	9.0
Banking	434	0.9
Other financial institutions	7,453	15.7
Remaining sectors of the economy	2,561	5.5

Calculated according to: *Survey of Current Business*, August 1984, p. 29.

In considering the latest such data two conclusions are warranted: first, Canada remains the domain for capital investment by almost exclusively the USA and a handful of leading Western European states; second, the more modest (in absolute terms) property owned by British, Belgian and French investors in Canada secures a much higher proportion in controlled assets as compared with the USA than may be judged from the nominal size of investment. This is because Western European capital is less dispersed since it is represented almost exclusively by the subsidiaries and branch plants of leading transnationals, while the offensive by American corporations has been conducted along a much broader front. In addition, America's rivals are often content to take a relatively modest part in the capital of Canadian companies (nevertheless enabling them to direct their activity and manage their aggregate assets), while American monopolies usually seek ownership of the controlled enterprises.[9]

The question of control is the key issue in estimating actual positions occupied by foreign investors in the economy of a country. As leading American authorities in the field have acknowledged, "The motivation behind direct investment and the position of subsidiaries or branch plants ... is primarily the acquisition of control over natural resources, assets and markets. What is desired by the parent firm is a permanent position in the foreign economy".[10-11] As to Canada, where nearly half the industry is still under foreign control, the question of restricting the influence of foreign transnationals, "buying back" of national enterprises and restoring economic sovereignty over its natural resources and production capacities is truly all-important. And due to the very scale and the omnipresence of US monopolies in the country's economy, the problem of foreign control is chiefly confined to Canadian-American relations.

Looking back at the past decades, it is to be admitted that the domination of foreign capital in Canada's economy did not arise all of a sudden at some point, but developed gradually reaching its apex in the late 1960s (see Table 6).

Table 6

Foreign Control in Canada's Economy (per cent)

	1948	1958	1968	1973	1978		1980		1981
					A	B	A	B	
Manufacturing	43	57	58	58	52	41	50	30	50
Petroleum and natural gas	—	73	75	75	54	41	44	34	44
Mining and smelting	40	60	68	56	51	38	46	34	46
Railways	3	2	2	2	1	1	1	1	1
Other utilities	26	5	5	7	4	4	3	3	3
All non-financial industries	25	32	35	34	28	22	26	20	26

A—all foreign control;
B—control by US capital.
Calculated according to: *Canada's International Investment Position, 1926-1967*, Ottawa, 1971, pp. 108, 124-27; *1968-1970*, Ottawa, 1975, p. 65; *1978*, Ottawa, 1982, p. 32; *Statistics Canada Daily*, January 26, 1983.

Since then national capital has grown considerably both in terms of quantity and quality, its positions in the national economy have been strengthened and its power consolidated. Yet if we were to glance at the figures concerning foreign control in the key section of Canada's production of goods which industry has been and still is, we would find a truly striking extent of American domination, unparalleled in today's world. In the mining and petroleum and natural gas industries on which the energy and raw material supply of the national economy depends and where a significant share of the possible income from export trade is generated; in manufacturing both as a whole and in its major sectors determining the image and international competitiveness of modern industry—everywhere we find an extremely high share of assets controlled by US monopolies, an even greater part in total sales of the industry, and as a result, not a smaller but often a larger slice of the pie in terms of profits (see Table 7). And virtually in all instances the figures, reflecting the positions of US capital, even if they do not fully coincide, are quite similar to or of the same order as the figures relating to aggregate participation by foreign companies in relevant industries.

Yet in some sectors of the economy American companies do not chalk up such impressive figures. Their positions are relatively insignificant in a number of sectors of the consumer goods industry, smelting, construction, the utilities, trade and services. But, as mentioned above, this is not a sign of weakness or lack of interest on the part of foreign investors in certain kinds of business, but rather the result of a historically shaped pattern of collaboration between US monopolies and the rising Canadian national bourgeoisie on the basis of joint exploitation of the country's natural and manpower resources.

National circles of monopoly capital are hardly ready to give up such an alliance, but they reasonably believe that the time has come to revise the terms of the "division of labour" between two parts of the North American bourgeoisie in Canada's economic development. They have obviously outgrown the swaddling clothes in which they have had to do business with the southern neighbour dressed up in the latest industrial style. No wonder a favourite leitmotif of critics of the modern pattern of Canada-USA economic relations is the claim that the manufacturing sector of national

Table 7

The Share of Companies Controlled by Foreign Capital in Aggregate Sectoral Percentages (1979 and 1981, per cent)

	Total foreign capital				US capital			
	assets		sales	profits	assets		sales	profits
	1979	1981			1979	1981		
Mining industry	50	38	55	50	40	30	48	43
ore mining	35	28	37	22	28	21	28	17
petroleum and natural gas extraction	59	40	58	61	47	35	50	53
Manufacturing industry	49	45	49	52	36	33	39	41
food	37	29	25	54	30	23	20	48
rubber	90	78	88	91	69	65	75	91
textiles	56	50	52	41	44	42	43	32
wood	20	17	14	32	16	13	11	29
pulp-and-paper	39	29	28	27	30	21	19	22
metalworking	37	35	35	46	29	27	27	42
machinery	55	48	56	62	47	39	49	46
transportation equipment	73	69	84	65	68	63	79	60
electrical products	59	54	62	64	47	44	52	55
oil refining	69	60	78	73	47	45	56	57
chemicals	76	76	76	87	59	57	57	70

Calculated according to: *CALURA. Report for 1979* (Part I, Corporations), Ottawa, 1981, pp. 146-61; *CALURA. Report for 1981* (Part I, Corporations), Ottawa, 1984, pp. 147-59.

industry has acquired a "branch-plant", "truncated" nature in terms of the development of some of its parts. In the new clothes better fitted to the historical occasion and the changed balance of power in the world and in the North American region in particular, the Canadian bourgeois would be quite prepared to go further. As to potential participation in the country's industrial development by the capital of Western European countries, Japan, Australia and others, according to an opinion prevailing in Canada, that possibility is very great and has hardly been tapped at all. So national capital is waging a struggle to extend its influence in its own country, so to speak, on one, "southern" front, demanding greater equality in the partnership with the USA and at least a partial overcoming of the consequences of the American monopolies' overwhelming economic presence.

The scale of the profits going to the "senior partner", US transnationals, provokes particular bitterness in the country. It is not really important how the transnationals dispose of their profits from exploiting Canadian natural and manpower resources, i.e. transfer them abroad to distribute as interest and dividends between American holders or leave them in the country supplementing the basic capital of the enterprises they control and thereby increasing their assets in Canada. In both cases, the country stands to lose, because a considerable part of its national income is used according to the Americans' needs either directly draining the country of finances and thereby worsening the balance of payments or enabling the American transnationals to finance their property growth in Canada by capitalising an increasing part of the surplus-value created by the labour of its working population.

Statistical data indicate that since the mid-1960s more than half the growth of the balance-sheet value of foreign direct investment had to do with using undistributed profit to finance new capital investments, and by the end of the 1970s this source almost completely replaced the traditional method of increasing assets in a foreign country by directly exporting capital over the national border. Thus, an analysis of factors determining changes in the balance-sheet value of American direct investments in Canada in 1970 and 1978 enables us to draw the following conclusions. In the first case, two fifths of the growth was still achieved by pure inflow of investments from abroad observed in practically all the spheres of the economy and particularly great in the petroleum and natural gas industry. In the second case, the extent of reinvestment was so impressive that it made it possible not only to compensate for the negative (from the standpoint of American ownership in Canada) consequences of the absolute outflow of investment capital from the country which had assumed truly enormous scope in the mining and petroleum and natural gas industries (1,100 million dollars in one year!) but also to secure a sizeable (3,600 million dollars) growth of aggregate American assets in Canada in the form of direct investments.[12]

It is significant that withdrawal of capital from the resources sectors of Canadian industry in recent years was largely a result of the worsening of the general investment climate in the country as the Canadianisation policy gained momentum with the wave of mergers and takeovers it caused which were aimed at buying Canadian companies back from the Americans. Thus, "de-investment", i.e. sale of shares (4,600 million dollars) and direct transfer of capital abroad by American monopolies totalled about 10,500 million dollars in 1981.[13] The lion's share of the transfers were effected by American petroleum monopolies, which, in response to the National Energy Programme, liquidated a considerable part of their assets in Canada and sharply reduced the volume of prospecting and drilling work. According to official American data, an absolute decline in US direct investment in Canada occurred in 1982 (by only 600 million US dollars, however). In the same year the net outflow of long-term American capital investment from Canada was 2,100 million US dollars (all to the "credit" of the resources sector from which even slightly more—2,200 million—was withdrawn), so if it were not for reinvestment the picture would have been quite different. According to the same source, the reinvestment rate, i.e. the share of profits obtained by American companies in Canada used to increase the basic capital of their subsidiaries, constituted up to 75 per cent in certain sectors of the economy, while the overall size of profits from direct investment was approximately from 2,200 million US dollars (in the year of the crisis, 1982) to 3,600 million (the more favourable 1981).

An even more unfortunate picture from the standpoint of the country's interests and foreign accounts is presented by the state of the current balance of income and payments having to do with US investments in Canada and vice versa. Thus, in 1978, of the sum of transfers abroad in the form of interest and dividends totalling 7,600 million dollars (!) only 2,200 million were covered by the flow of profits into the country, and almost 90 per cent of the passive balance under this heading (4,800 million dollars out of 5,400 million) fell to accounts with the USA.[14] And the share of payments to American holders (in the overall transfers under this heading abroad) was higher in dividends for stock ownership than in interest (79 and 67 per cent respectively), while in the total payments of dividends 92 per cent fell to profits from direct investments. It is important to point out that in this field the situation has not actually changed over the years: of the total sum of dividends paid in 1981 to foreign holders of stock in companies not controlled by national capital and operating in Canada, 85 per cent went to American stockholders (the Americans' share in the interest transferred abroad was also even higher than in 1978—72 per cent).[15]

Typically, in the petroleum and natural gas industry the profit rate on American direct investment is on an average two to two and a half times higher than in the other sectors of the Canadian economy,[16] which, in addition to other considerations, contributes to anti-American moods in the country due to the continued domination of the resources sector by the US transnationals. According to data quoted by the former federal minister Gerald Regan 3,800 million dollars flowed abroad from the Canadian petroleum and natural gas industry in 1975-1979, including 2,100 million as a result of the flight of investment capital (de-investment) and 1,600 million in transferred profits.[17]

It is a revealing fact that within Canada's production of goods the petroleum and natural gas industry has stood out for a long time by the massive presence of foreign companies among which subsidiaries and branch plants of US transnationals prevail. Thus, in 1978 they numbered 541 (out of 746), more than in any other sector except for the "iron and steel" group to which most of the engineering firms have also been attributed (here the Americans controlled 860 out of 1,062 companies). On the whole, in 1978, there were more than 10,000 foreign companies registered in Canada (including non-incorporated affiliates), of which 6,500 were controlled by US capital.[18] According to UN data, at the beginning of the 1980s, of the 6,600 subsidiaries and branch plants belonging to foreign transnationals in Canada, 65.6 per cent were US owned.[19] According to the latest, more generalised data, nearly every third company out of 75,000 included in a special survey of Canadian companies was directly or indirectly controlled by foreign capital. At the beginning of 1983 foreigners owned more than 22,000 companies, and if the system of financial control is taken into account, the figure goes up to nearly 46,000. US capital owned half of the Canadian companies belonging to foreigners (11,000).[20]

There exist slightly different data which, however, do not contradict the fact of the preponderance of US monopolies among foreign investors. Thus, in 1981 2,200 American concerns controlling 3,600 companies accounted for 18.8 per cent of the assets belonging to all non-financial corporations registered in Canada (numbering 359,000!), 26 per cent of their equity, 22.5 per cent of the sales and 28.6 per cent of the profits. The share of these American companies among all firms controlled by foreign capital reached nearly 81 per cent in profits and was minimal in assets (74 per cent—also quite an impressive figure).[21]

In this connection it is to be noted that while the absolute scope of the monopolies' activities in Canada is considerably lower than in the USA, the extent to which they direct production and sales in most Canadian industries is as a rule even greater than in corresponding sectors of the southern neighbour's economy.

In historical and functional terms the high level of concentration of capital in Canada has to do with the established industrial structure, in particular, with the importance of such sectors as transportation equipment, smelting, petroleum and natural gas, petrochemical, and rubber industries. With rare exception, concentration and monopolisation in industries is the greater the larger the part played in them by foreign capital. As early as the mid-1960s the Watkins Report pointed out that in comparing different industries a correlation was observed in a number of firms between the degree of foreign control in an industry and the level of production concentration.[22] Contemporary Soviet researchers emphasise that as a result of regional integration "concentration of capital in Canada has lately become higher than in the USA, particularly in those industries where foreign capital is predominant".[23]

A leading place in most industries belongs to international monopolies in the form of transnational corporations. In most of them Canadian capital takes a subordinate place with respect to the monopolists from the USA and the United Kingdom, less frequently those of third countries. And the subsidiaries of foreign transnationals operating in Canada are as a rule much larger than their Canadian competitors. Thus, in the mining and petroleum and natural gas industries in 1981, the average annual sales of 209 firms controlled by foreign capital with assets worth over 10 million dollars amounted to 89 million dollars while for each of the 329 national companies of this size the figure was 50 million.

In the manufacturing industry the relevant figures were 134 million dollars for 715 firms controlled by foreign capital and 95 million dollars for 772 Canadian companies. A particularly large gap in the scale of operations by foreign and national firms is retained in the extraction of natural fuel (average sales for one foreign-controlled company were 107 million and for one national company—41 million dollars), and also in transportation equipment industries (392 million and 61 million dollars respectively).

As compared with the USA, Japan or the leading countries in Western Europe, the absolute number of large corporations in Canada is not very impressive. In 1981 only 3,745 out of more than 359,000 non-financial companies (slightly over 1 per cent of the total) had assets worth in excess of 10 million dollars. Out of these 3,745 companies, 1,388 were under foreign control and 2,357 under national control. In 1979 the number of industrial companies with assets worth over 25 million dollars was 329 in the mining sector (146 under US control) and 1,043 in the manufacturing industries (471 of them were American).

Among the 1,000 largest non-financial corporations, 469 were foreign in 1981, and at this level their advantages as compared with national firms in average sales were still not felt (see Table 8).

It is generally believed that the core of the country's monopoly capital is formed by 500 leading corporations. Constituting only 0.14 per cent of the total number of the country's non-financial institutions, they have nevertheless monopolised over 53 per cent of the sales, 65 per cent of the assets and nearly 69 per cent of the profit. In 1981

Table 8

Distribution of the Number and Sales of 1,000 Largest Non-Financial Corporations Between Foreign and National Private Enterprises (1981)

	Number of enterprises	Number of controlled corporations	Total sales	Average sales per enterprises
			$ billion	
25 leading enterprises				
A	9	163	51.4	5.7
B	14	404	61.1	4.4
50 leading enterprises				
A	18	266	67.7	3.4
B	28	584	87.1	3.1
100 enterprises				
A	46	548	95.3	2.1
B	47	757	106.0	2.3
200 enterprises				
A	105	826	120.0	1.1
B	86	1,041	122.6	1.4
500 enterprises				
A	261	1,385	148.1	0.6
B	230	1,749	148.3	0.6
1,000 enterprises				
A	469	1,893	162.4	0.3
B	522	2,434	167.9	0.3

A—corporations controlled by foreign capital;
B—national private companies.
Calculated according to: *CALURA. Report for 1981* (Part I—Corporations), Ottawa, 1984, p. 128.

there were 261 companies controlled by foreign capital among them. The share of subsidiaries belonging to foreign monopolies reached 45 per cent of the sales, almost 30 per cent of the assets and 42 per cent of the aggregate profit of the 500 largest firms (see Table 9).

In the same 1981 the 100 largest monopolies controlling 1,442 corporations accounted for 38 per cent of total sales, 50 per cent of assets and 53 per cent of profits in the non-financial sphere. Within the Big Hundred, 46 companies represented foreign owners (in 1975, however, there were 55). Controlling only 25 per cent of aggregate assets and equity of the companies in that group, at the same time they secured 41 per cent of the sales and obtained nearly 35 per cent of the profit. The number of their own subsidiaries in

Table 9

The Position of Foreign Companies Among Firms of the Non-Financial Sphere (1980, per cent)

	25 leading corporations	100 largest corporations	500 largest corporations	All corporations in the non-financial sphere*
Number of foreign subsidiaries	9	46	261	3,241
Number of companies controlled by them in Canada	163	548	1,385	5,213
Share of:				
sales	37.5	40.9	45.0	29.8
assets	17.8	25.3	30.2	25.5
profits	25.4	35.0	42.0	35.5

*Including the enormous mass of small companies unclassified in terms of national identity of owners. The share of such companies in totals for firms of the non-financial sphere is: 4.8 per cent in sales, 3.0 per cent in assets and 3.0 per cent in profits.
Calculated according to: *CALURA. Report for 1981* (Part I—Corporations), Ottawa, 1984, p. 39.

Canada exceeded 560. It is significant that foreign leading firms had an advantage over national firms in the sales/assets ratio as well as profits/assets, while the profits/sales ratio was much lower.[24]

In 1982 the 500 companies' club (a list of leaders in the non-financial sphere published by *Canadian Business*) included 260 foreign companies, among them 176 American, 60 Western European, and 15 Japanese.[25] Two years later there were nearly 200 foreign companies on the list of the top 500 firms compiled by experts of *The Financial Post*, two thirds of them American. There were 26 American companies in the top hundred, 27 in the second hundred, 36 and 29 respectively in the third and fourth and 23 in the fifth. The list of billionaire corporations (in sales) in 1984 included 89 firms, of which 21 represented US capital.[26]

The share of the leading companies is particularly high in shipments by sectors with continuous production pro-

Table 10

The Role of Top Companies in Individual Industries (by groups, 1981)

	The share of the top companies in sales, per cent		The place taken by the top national firm among the industry's leaders	The share of foreign firms among the top eight companies in the industry, per cent	
	four companies	eight companies		in sales	in assets
Metallic ore mining	51	68	1	37	28
Mineral fuel extraction	39	58	1	58	43
Other mining industries	21	30	1	38	34
Food	18	27	1	25	29
Beverages	41	62	1	35	28
Tobacco	92	100	9	100	100
Rubber	57	81	8	89	90
Leather	19	31	2	22	23
Textiles	41	48	2	52	51
Clothing	8	11	3	11	14
Wood products	17	24	1	14	15
Furniture	10	16	1	14	15
Pulp-and-paper	39	52	1	28	29
Printing	25	35	1	11	11
Smelting	58	74	1	15	13
Metalworking	12	19	1	34	35
Machinery	23	31	2	56	48
Transportation equipment	65	71	5	84	69
Electrical products	36	46	2	62	54
Processing of non-metallic minerals	31	47	6	58	68
Petroleum refining	64	85	5	78	61
Chemicals	26	38	4	76	75
Other manufacturing industries	19	24	4	44	40

Calculated according to: *CALURA. Report for 1981* (Part I—Corporations), p. 47.

cesses (such as oil refining, chemicals, rubber and smelting) and those oriented towards mass consumer markets (motor vehicles, beverages, household electrical appliances, fertilizer and synthetic fibres). Foreign capital is widely represented among the leading companies in most of these sectors (see Table 10).

According to early 1980s figures, in 12 of the 33 leading industries singled out by Canadian statistics the top eight companies accounted for more than 50 per cent of the sales, and in another 13 industries the share of the top eight was not less than 25 per cent. In turn, the share of foreign-controlled enterprises in shipments by 8 leading companies in certain industries was as follows: over 80 per cent in oil extraction, manufacture of motor vehicles, spare parts and assemblies for them, rubber industrial electrical equipment, aerospace and farmaceutical industries; from 60 to 80 per cent in natural gas extraction, manufacture of household electrical appliances and electronics, petroleum and chemical products, soft drinks, canned fish and non-metallic minerals processing.

As a rule, the same large North American transnationals possessing enterprises of the complete production cycle operate in mining, ore processing, manufacture of refined metals and other semi-manufactured metal products and occasionally finished goods. Most of these vertically integrated concerns (combines) are controlled by US capital.

In 1981 in the mining and petroleum and natural gas industries foreign companies' subsidiaries constituted only 7.2 per cent of the total number of firms (427), but controlled nearly 38 per cent of the assets, made 49 per cent of the sales and gained 51 per cent of the profits. In the manufacturing industry 1,900 foreign companies (5.2 per cent of the total) had 45 per cent of the assets, made 49 per cent of the sales and gained nearly 52 per cent of the profits. In the same year there were 1,711 companies controlled by US capital among those that submitted to Canadian statistical agencies data on their payments to non-residents. It is significant that 465 of them with assets in excess of 25 million dollars accounted for 86 per cent of the relevant total payments. It is also interesting that more than half of the sum itself (5,100 million dollars) consisted of dividends (2,100 million dollars) and interest (800 million), while the rest went to pay services by managers, research and legal advice and so on.[27]

Even in machinery industry, with 1,620 companies according to the 1981 survey, less than 200 of them (with more than 100 employees each) provided up to 70 per cent of the shipments while two thirds of the smallest ones, less than 10 per cent. Even here nearly half the industry's shipments were by companies controlled by US capital. In electrical engineering with 1,121 companies in 1981, the top eight monopolies had a third of the employees and more than two fifths of aggregate sales. The subsidiaries of American monopolies were the leading companies here. In the young but rapidly growing industry manufacturing and maintaining computers almost half the profits went to IBM Canada. All the top five firms making computers were foreign ones, four of them American.

It is not very convenient in describing the country's industrial elite to make use of the lists of the largest monopolies officially published in Canada, because they include data on leading companies of the entire non-financial sphere without distinction between trade and industrial firms, private and state, production and holding, and so forth. Thus, the latest and fullest source of information available to us assigns second place in sales (14,600 million dollars in 1984) to the giant holding company Canadian Pacific Ltd. belonging to the national financial group Power Corporation and owning assets worth 18,800 million dollars (third place after crown corporations Ontario Hydro and Hydro-Quebec) and employing 120,000 persons (overall first place). Sixth place in the top 500 companies' list was taken by the acknowledged leader in trade, George Weston Ltd. (sales 8,300 million dollars).

So in order to obtain the industrial top ten, we would have to remove them artificially from the upper part of the official list, ignoring the Canadian Wheat Board, a state organisation with monopoly rights in buying and exporting grain (sales were 5,500 million dollars, or 12th place), and the state Canadian National Railways which comes after it.

Of the industrial companies proper the following should be included in the top ten: automotive giants General Motors of Canada Ltd. (16,300 million dollars of sales and 3,900 million dollars of assets) and Ford Motor Company of Canada (sales 12,100 million dollars, assets 2,800 million); the parent company of a whole electrical engineering and electronics empire, Bell Canada Enterprises Inc. (10,800 million dollars of sales, fourth place in assets—17,500 million dollars–and second in employees—108,000 persons); the famous monopoly Imperial Oil Ltd. (sales 8,400 million dollars) controlled by the American Exxon Corp.; the leader in non-ferrous metals, Aluminium Co. of Canada (sales 7,100 million, assets 8,800 million); another member of the automotive Big Three, Chrysler Canada Ltd. (sales 6,300 million, assets 1,100 million); then come four oil monopolies in a row controlled by US capital, Texaco (Canada) Inc., a Canadian subsidiary of the Anglo-Dutch concern Shell Canada, the American Gulf Canada Ltd. and PetroCanada (sales 4,900 million, assets 9,100 million).[28]

Thus, in the top ten we have three automotive concerns, five oil monopolies, one metal producing company and one electrical engineering monopoly (which is also in the utilities as it deals with telephone communications). Eight of them are under foreign control, one belongs chiefly to Canadian private owners (Bell) and one is state-owned (PetroCanada, more about which later).

If the top three subsidiaries of the American motor giants which account for nine tenths of the industry's output are supplemented by American Motors (Canada), Inc. (111th place in the 1984 list), the picture of the Canadian automotive industry becomes basically complete. Yet, strictly speaking, there is no national autmotive industry as such, but only the Canadian segment of one "North American" automotive industry totally in the hands of the above four companies. The industry's integration in terms of production and technology occurred in the late 1960s and early 1970s when the effect of the 1965 Auto-Pact was truly felt (the bilateral Auto-Pact provided for tariff-free trade in motor vehicles and parts for their assembly, for further details see Chapter Six).

The same *Financial Post* review from which the above data were drawn also contains a list of the 50 largest subsidiaries of foreign monopolies of which 36 belonged to Americans. The top five were American; among the top ten, nine were also American (only the Anglo-Dutch Shell had found its way here); in the top twenty, 17 were American. It is also significant that among the 20 largest "private" companies (those that refuse to provide information to take part in the 500 companies' list), eight are also controlled by the USA (including the Pepsi-Cola subsidiary in second place, Estée Lauder Cosmetics in third place, Ford Electronics Manufacturing and others).

Finally, it is to be noted that the profit rate enjoyed by corporations controlled by foreign capital is as a rule higher than that of national companies. The latter is confirmed, for instance, by data in Table 7 where the figures reflecting control over sales in a sector and the share in sectoral profits as a rule exceed the American transnationals' proportion of the relevant assets.

At the end of the 1970s in the fundamental research work *Natural Resources in US-Canadian Relations* prominent Canadian economist D. J. Daly attempted to prove something that could not be proved, i.e. that American monopolies (at least in the resources sector) were content with a lower profit rate on capital than national companies, which allegedly served as an argument in the former's favour in the discussion on the role of foreign investment in the country's industrial development.[29] At first glance, this opinion was confirmed by the statistics of those years when America's share in profits of the mining industry frequently proved to be lower than its share of the industry's assets (for example, in 1978, it was 18 and 29 per cent respectively). However, this was not at all due to the generosity of American monopolies ready to give up high profits for the sake of the Canadian consumers' wellbeing. First of all, the principal part of the ore mined was delivered to the USA almost unprocessed, so that none else but the parent companies of the same firms operating in Canada stood to gain from low prices. Second, specific conditions on the raw material markets combined with the mechanism of transfer prices widely used by monopolies in intracompany exchanges in order to minimise taxes paid on both sides of the border, provided wide opportunities to conceal the true size of profits gained in Canada.

Incidentally, another Canadian researcher, B. W. Wilkinson stated that Daly had not taken full account of this aspect of the problem. Moreover, in the existing situation Wilkinson saw an additional argument in favour of "buying out" the mining industry from the Americans, since in the final count "Canadians end up paying foreign shareholders more to consume their own resources".[30] One of the major authorities in the field of foreign investment, A. E. Safarian, has also pointed to the ability of the transnationals to manipulate profit reports to conceal part of the profit in order to avoid paying national taxes.[31] Having analysed extensive empirical material, Wallace Clement reached a general conclusion that "foreign investment in the mining and manufacturing sectors is much more profitable than Canadian ownership in these same areas".[32]

Transfer prices are widely used also by companies in the manufacturing industries where relations of intracompany specialisation and cooperation between divisions in monopolies are particularly widespread. Many kinds of restrictive practices are also applied on the domestic market in Canada. Thus, the undoubtable price leader in the automotive industry is the General Motors Corporation. The other companies price their automobiles according to the level offered by this corporation. In food trade, the scale of prices is set by Loblaw Cos. and Dominion Stores.

According to the 1984 returns, all our "acquaintances"—the three automotive giants and the oil and electronics leaders (IBM Canada and Digital Equipment of Canada)—were among the most profitable companies in Canada.

The subsidiaries and branches of many American banks began to energetically expand operations in Canada following the revision of the Bank Act in 1980. However, they still occupy a rather modest place in the overall hierarchy of financial institutions functioning in the country. The most important foreign bank in terms of assets, the City Bank of Canada (3 billion dollars), is only in 26th place, the Chemical Bank of Canada is in 33rd place, and the Bank of America Canada, in 40th place. American insurance companies occupy much more prominent positions on the Canadian market.

In the years of the latest crisis a real race to attract foreign capital began between the provinces, and the new economic boom which started in 1983 contributed to the revival of plans for resource megaprojects in Alberta, British Columbia and the new petroleum and natural gas area on the Atlantic seaboard. National construction companies—consultants and subcontractors—were urgently putting together consortiums with the extensive participation of well-known subsidiaries of American monopolies such as Mobil Oil Canada and Betchel Canada—a powerful construction concern famed for its contribution to the building of the giant Syncrude complex on the basis of the Atabaska oil sands and the James Bay hydro project.

Another important development was how Canadian banks were gradually reoriented from chiefly supporting national enterprises to extensive participation in providing credit for international monopolies. This trend gained momentum as the operations of Canadian banks increasingly acquired an international nature. The share of foreign currency loans in total loans granted by the banks reached two fifths as compared with merely 3-5 per cent two decades before. From the early 1980s up to half of the banks' profits after taxes came from international operations (as against 17 per cent in 1971).

Canadian economist Stephen Hymer believes that most of the financial resources used by the present-day transnationals in expanding direct investment in other countries usually come from the monetary markets in these same countries in the form of loans and securities. Referring to Hymer's considerations, his supporter Rugman points out that, thereby, a country such as Canada is "financing its own sell out".[33]

When providing particularly large credits to transnational corporations Canadian commercial banks often collaborate directly with US banks, and less frequently, with the banks of other capitalist states. Thus, in financing the above mentioned James Bay project the Canadian banks had as their partners the Morgan, Rockefeller and Rothschield financial empires.

In the past, enterprises controlled mostly by national capital in such sectors as food, textile, pulp-and-paper, iron and steel and electric power had traditionally served as the clients of Canadian banks. Foreign companies operating in Canada preferred to obtain the principal part of the loans they needed from parent companies in the USA or the American banks associated with them. The above-listed sectors occupy a prominent place in the structure of bank loans at the present time; in the last decade, however, the volume of credits provided to corporations in the petroleum and natural gas, chemical, electrical products, automotive and other industries dominated by foreign capital has grown steeply. That means, in particular, that American transnationals are increasingly applying to Canadian banks to finance their capital investments. For that reason Canadian banks' activities often objectively oppose efforts to reduce the influence and control of foreign capital in the country's industry. It must be pointed out, to be fair, that in recent years the banks also took part in financing operations having to do with buying back Canadian companies from foreign owners under the Canadianisation policy to be dealt with presently.

The Fate of the Canadianisation Policy

The history of Canadian "economic nationalism" goes back more than a century if we take the adoption of the protectionist National Policy in 1879 as its starting point. Canadian nationalism, however, developed unevenly and inconsistently, together and in confrontation with another, stronger trend—to draw closer to the USA and continental economic—market and production—processes (which is why the corresponding development doctrine is known as the ideology of continentalism).

The state policy founded on the views of the nationalists also had different names. In the times of John Diefenbaker it was pro-Canadianism, while in the 1970s the new nationalism of Trudeau and his entourage was labelled the Canadianisation policy or simply Canadianisation.

The policy was proclaimed and assumed extensive scope soon after the dramatic cooling off of relations with the USA in the second half of 1971 when President Nixon undertook a number of protectionist measures without prior consultation with Canada—measures which inflicted considerable harm on that country, and, most importantly, hit its national prestige very hard showing that it was not an exclusive partner and ally of the USA but a country *comme les autres* (see more on the subject in Chapter Six). The wave of public indignation raised by the "Nixon shock" rolled high and continued for a long time. Canadians had obviously had enough of seeing "themselves behaving as observers of foreign-managed corporate activities in their own country over which their central policy organs exercise little control".[34] In 1975, according to a poll carried out by the Canadian public opinion institute, 58 per cent of the country's residents supported the idea of buying back Canadian property from foreigners.

The idea was first proposed as the basis for a possible state policy in the mid-1950s. The then chairman of the Royal Commission on Canada's Economic Prospects and subsequently Minister of Finance, Walter Gordon, ventured to include a 30 per cent tax on deals with securities aimed at establishing foreign control over national companies in the draft 1963 federal budget. The tax was not passed, but another proposal made by Gordon, to set up the mixed private and government Canada Development Corporation (CDC) which would contribute to the rise and development of strong private corporations under Canadian control and management, was implemented in the same year of scandals, 1971, and since then the CDC has helped a great deal to expand the sphere of national control in the economy. One of the CDC's first and best-known actions was to purchase, for 271 million dollars, 30.2 per cent of the shares of Texasgulf Inc., an American company with headquarters in Texas owning extensive petroleum and ore concessions in a number of Canada's provinces, including the major Kidd-Creek silver mines.[35] At the beginning of the 1980s, incidentally, the indefatigable Walter Gordon, at the time president of a major industrial company, Canadian Corporate Management, was advocating a new idea: to establish national control over 32 leading monopolies with assets exceeding 250 million dollars which by his estimate would cost about 15 billion dollars.[36]

In the early 1970s, the Committee for Independent Canada was founded bringing together advocates of the Canadianisation policy and adopting many ideas from the Watkins Report (1968) and the Gray Report (1972) which contained a detailed analysis of the situation with foreign capital and proposals to extend state control over the transnationals' activity.[37] As S. Clarkson has written about that period, "Canadianisation became ... a new and popular word in the political lexicon, a hopeful concept that affirmed the country's ability to run its own affairs".[38]

Since the early 1970s the federal government has undertaken a number of practical steps to develop tools to influence foreign property in the country. Among these steps mention should be made of an amendment to the Income Tax Act establishing a differentiated tax depending on the share of foreign capital in industrial company assets, the Canada Corporations Act requiring a majority of Canadians on the boards of directors of federally incorporated companies and the issuing by the Department of Industry, Trade and Commerce of "voluntary guidelines for good corporate behaviour" by Canadian subsidiaries of foreign transnationals.[39]

Private and state monopoly capital undertook more direct efforts to establish national control over large companies. In 1974, for example, state ownership was established over the assets of the British De Havilland Aircraft, while the national private monopoly Abitibi Paper acquired the controlling interest of the Price Company which made it one of the world's leaders in newsprint manufacturing. In 1975 Canadian ownership of the world-famed Inco Ltd. monopoly reached 51 per cent (in 1970 it was 31 per cent). In 1976 the CDC bought up the share of the Houston-based Tenneco Inc. in the Canadian petroleum and natural gas industry, Canadair Ltd. passed into state hands, while the PetroCanada crown corporation set up shortly before that bought the assets of Atlantic Richfield employed in petroleum operations in Alberta. In the same year, 50 per cent of the assets belonging to the Duval Corporation, a subsidiary of the American Pennzoil Corporation of Houston, were nationalised.

The "buying back" of Canadian property from American transnationals and the rise of national monopolies assumed particular scope at the very end of the 1970s and early 1980s.[40] The largest wave of mergers and takeovers swept the country in that period as a result of which dozens of major foreign companies passed into the hands of national capital.

Thus, at the beginning of 1981 Noranda Mines purchased 49 per cent of the shares of MacMillan Bloedel, Ltd., the second most important lumber monopoly in the country, for 626 million dollars. At approximately the same time the largest American monopoly in the industry, Canadian International Paper Inc., passed into the hands of Canadian Pacific, a powerful national holding company, for 1,100 million dollars, while Olympia and York Investments gained control (88 per cent of the shares) over Abitibi-Price, Inc. for 560 million dollars. All this signified a marked consolidation of national capital in lumber and pulp-and-paper manufacturing, one of the three most important parts of the resources sector in the economy.

Two clans representing national finance capital played an outstanding role in the wave of mergers: the Reichmann family (owners of Olympia and York Investments) and the Bronfman brothers (owners of the equally well-known Brascan). The Bronfmans acquired control over nothing less than an entire resources empire, Noranda Mines, owner of dozens of mines and (after the takeover of MacMillan Bloedel Ltd.) a leader in sawmills, through the recently founded holding company Brascade Resources Inc. which they control jointly with the state monopoly Caisse de dépôt et placement du Québec. As to the second producer of wood products in the country, Domtar Inc., one of the few Canadian transnationals deeply involved in US industry so far, in the same 1981, it passed under the control of the Quebec authorities (Caisse de dépôt et placement and Société générale de financement which by that time already controlled 12 industrial companies, including the major wood company Donohue Inc.).

It may be asserted that the chief distinction of the wave of mergers and takeovers which continued for more than three years was its connection to the Canadianisation policy. The subsidiaries of American monopolies increasingly frequently became objects of purchase, and the buyers included CDC, the PetroCanada crown corporation, and the above-mentioned state-owned provincial holding companies Caisse de dépôt et placement du Québec, Société générale de financement, and others.

A particularly strong impulse for further centralisation of capital on a national basis was provided by the National Energy Programme announced at the end of 1980 and involving major tasks in the field of Canadianisation of the country's fuel and raw material base. Accordingly, the economy's resources sector, chiefly the petroleum and natural gas and mining industries, became the principal scene of mergers and takeovers. Soon after the aim laid down in the National Energy Programme—to increase the share of local capital in the assets of the petroleum and natural gas industry's companies to 50 per cent—was announced, the president of a major national oil monopoly, Dome Petroleum, promised the then Minister of Energy, Mines and Resources, Marc Lalonde, to increase that share to at least 35 per cent by the beginning of 1983. In August 1981 it was announced that the monopoly had bought 47 per cent of the shares of the Hudson's Bay Oil and Gas Company previously controlled by the American Conoco Inc., for 4,300 million dollars, the largest takeover in Canadian history. It is interesting that virtually a month earlier the "victim" had purchased a major portfolio of stock belonging to another resources company, Cyprys Anvil Mining Corp.

It was in the same wave that PetroCanada purchased Belgian Petrofina's subsidiary, the large Zellers Ltd. company was bought by the Hudson's Bay Company belonging to the Thompson empire, and also the American assets of the Texasgulf Inc. passed from the CDC to the Belgian Société nationale elf aquitan in exchange for controlling interest of the latter's Canadian subsidiary.

Many people in Canada, however, regarded the setting up of the Foreign Investment Revision Agency (FIRA) in 1974 as the most important step towards the establishment of national control over the country's economic development. FIRA was authorised to consider proposals to purchase the controlling interest of existing Canadian companies and also projects of new capital investments with foreign firms taking part in order to ascertain whether the intended operations would largely profit Canada.

The attitude to FIRA both in Canada and particularly in the USA underwent a complex evolution. The first reaction by American business and in government quarters was sharply negative. It took more than two years to convince Americans that "the principal objectives of the Foreign Investment Revision Agency (FIRA) are not to block investment, as much as to gain better terms for Canada".[41] In 1977 the US government officially stated that it did not see any serious obstacle in FIRA activity for implementing most investment projects.[42]

Experts on the problem of foreign capital in Canada have written that FIRA decisions in the first years of its activity were marked by "permissiveness rather than rigidity", although "its mere existence and the publicity accompanying its creation may have signified to the US business community yet another in a series of proliferating government relations that make investment in Canada appear as a less convenient and less attractive option".[43]

Between 1974 and 1979 FIRA considered 1,326 proposals to establish control over Canadian companies and granted permission in 1,106 cases (83 per cent); of the 1,169 projects of new investments 1,007 (86 per cent) were approved.

The provincial authorities interested in obtaining permission for new investment frequently applied pressure on FIRA to further projects that were doubtful in the broader national context. Generally, individual provinces have different attitudes to the Canadianisation idea depending on the structure of the local economy, the market, etc. In the press and research works we frequently encounter statements to the effect that Quebec, for example, cannot afford to take such a firm stand with respect to foreign investments as, say, Ontario, and the same holds for the Atlantic provinces.[44]

All in all, the setting up of FIRA may, nevertheless, be regarded as a major step towards the establishment of government control over foreign monopolies in Canada. However, the agency had no authority to control the increase by foreign monopolies of the scale of their activity in their traditional and associated fields, including the reinvestment policy. In 1981, for example, FIRA was to consider projects to expand foreign direct investment in Canada by 2,600 million dollars. In the same year, total assets belonging to companies controlled by foreign capital increased by 25 billion dollars without any permission on the part of the agency.[45] Neither was FIRA able to exercise control over deals with securities if control over a company did not pass into other hands (movement of portfolio investment).

In any case, FIRA remained a troublesome straw in the eye of American investors. Although in 1982 of all the proposals for new investment projects and the right to purchase the controlling interest of Canadian monopolies only 13 per cent were rejected, in 1983 the American Administration submitted a complaint to GATT as to the legitimacy of FIRA. The complaint, however, was dismissed in principle, but it was pointed out to Canada that the practice of its state agency such as FIRA attempting to influence the market policy of firms controlled by foreign capital by prompting them to purchase materials and intermediate products from national suppliers contradicted the GATT treaty.[46] The latter practice was indeed widespread, a fact attested to by the example of Apple Computer Inc., which was granted access to the Canadian electronics industry in exchange for a long list of pledges, in particular, the pledge to purchase computer components and auxiliary equipment from Canadian manufacturers and also the promise to carry out an extensive research and development programme in

Canada drawing on local scientific personnel.[47]

The conflicts involving FIRA reached their highest point in the early 1980s when the agency was headed by the avid "nationalist" Herbert Grey. But when he was replaced in late 1982 by the "liberal" (with respect to foreign investment) Ed. Lumley the percentage of applications for mergers and new investment projects accepted increased even further (to 92 per cent in the first half of fiscal 1983/84). The number of proposals submitted also increased considerably (by 25 per cent in 1983 as compared with 1982) and also it took less time for them to be accepted.

It is to be noted that there was not too much consistency and purpose in the implementing of the Canadianisation policy even in its heyday. The efforts of the federal authorities frequently came to naught as a result of separate action on the provincial level where the leadership and business circles were much more concerned with the local population's employment and prospects of economic growth than nationwide considerations.[48] Moreover, the local people hardly believed that the Liberal government's slogans were serious, since its economic policies "have been consistent only in their inconsistency".[49] After the lessons of the 1982 crisis, the theme of "buying back Canada from the foreigners" was played down considerably. Even before the Conservatives came to power, continentalism raised its head again, which was reflected not in the rhetorics but rather as a principle underlying economic decisions. There were complaints about a shortage of funds and statements that "Canadianisation can only occur on a large-scale basis if the macroeconomic house is in better order".[50] Soviet economist A.G. Kvasov goes so far as to say that "even in its extreme manifestations, the policy of 'economic nationalism' pursued by the Trudeau government was not anti-American".[51]

When the Mulroney government came to power FIRA was not abolished as some had expected but its functions were fundamentally changed and FIRA "lost its fangs". In accordance with its new name, Investment Canada, it was not so much to control investment projects as to seek new resources for capital investment. Operations to gain control over companies with assets up to 5 million dollars as well as indirect takeovers of companies with assets up to 50 million dollars (when control over a Canadian company passed from one foreign owner to another) were no longer subject to state regulation.

The inflow of capital into the country grew more intensive and the number of proposals submitted to the new agency exceeded the records of the 1970s. In the summer of 1985 the *Financial Post* wrote that more and more businessmen and economists said that "increasing the inflows of foreign investment is necessary if Canada is to enjoy again the high economic growth rates of the 1950s and 1960s". Having come to power, Mulroney "almost immediately proclaimed Canada 'open for business' to foreign investors".[52] The government also adopted a course aimed at reprivatisation of a considerable part of the public sector's industrial assets (see also Chapter Seven).

And yet the above-mentioned National Energy Programme could have and probably had an even more far-reaching impact on the future of Canadian-American relations; the programme unexpectedly descended on the heads of Alberta's oil bosses and the owners of the Seven Sisters in autumn 1980.

If we were to consider the evolution of national (federal) policies in the field of energy, we would find that there were several turning points during the 20-odd years of its existence reflecting, on the one hand, a conflict between different approaches to the use of national fuel and power resources and, on the other, the overall abrupt change in the situation in the capitalist world following the momentous events of autumn 1973.

The interests of American oil monopolies were undoubtedly instrumental in shaping the National Energy Policy first laid down in 1961; the policy had reinforced the country's division into two markets, the eastern one oriented to imported oil from foreign oil fields controlled by American transnationals and the western one based on oil and natural gas extraction in Alberta and British Columbia. In the same period the USA began to restrict oil import for the first time, and the federal government of Canada undertook great efforts to secure unhindered access to the American market for petroleum and natural gas producers in the western provinces.

At the end of the 1960s there was even talk about a continental energy treaty, however, the quotas on Canadian petroleum imports introduced unilaterally by the United States in 1970 provoked an abrupt cooling of relations.

Then sharp differences emerged with Richard Nixon, and slightly later the storm of the energy crisis completely buried the idea of a unified North American energy system.

In 1974 the National Energy Board of Canada published estimates of the country's petroleum resources which marked a dramatic scaling down of earlier appraisals.[53] The first major turn of federal policy occurred towards Canadianisation of the petroleum industry: prices on petroleum and natural gas were transferred to an independent domestic scale and broke away significantly from prices on the American market. The export of petroleum into the USA was put under federal control and it was announced that these deliveries would be completely stopped by 1983. In order to sharply reduce petroleum import the decision was finally adopted to build the Sarnia-Montreal oil pipeline intended to supply eastern areas from the country's own deposits.

In early 1976 the government published a paper entitled "Energy Strategy for Canada", which set the objective of securing the country's utmost self-reliance in the field of energy resources.[54] According to official estimates, it was necessary to raise the proportion of financial resources directed to energy construction to 4.9-5.2 per cent of the GNP in 1976-1990 (as against an average of 3.5 per cent in 1950-1975).

The PetroCanada crown corporation was set up at about the same time for the state to participate directly in the planned energy megaprojects, including construction of enormous industrial plants to use petroleum from the oil sands in the Atabaska (Alberta) area, and also to raise the share of Canadian property and control in the petroleum and natural gas industry. A single price on petroleum was introduced in the country. The price was to rise gradually, remaining considerably lower than OPEC prices. Oil export was subject to a special tax (amounting to the difference between domestic and world prices) to create a government fund from which consumers forced to buy imported petroleum would be subsidised. The right to exempt from the overall sum payable under the federal tax the already collected provincial taxes and duties was abolished, at first fully and then, as a compromise designed to soothe the oil-producing provinces, partially.[55]

In those years the American press wrote a lot, and very angrily, about the "blue-eyed Arabs of the north", the "Canadian shock" and the disloyalty of the formerly faithful hewers of wood and drawers of water for the court of His Majesty American Industry. However, the panic due to the alleged early running out of petroleum reserves in the country subsided somewhat, and a new turnabout occurred in 1978: unexpectedly for many the Trudeau government stopped talking about its decision to discontinue petroleum export to the USA from the Alberta oil fields. Apparently, this was a result of the new improvement in Canadian-American relations after both countries had emerged from the economic crisis of the mid-1970s and the Canadian Prime Minister established a close personal contact with Jimmy Carter.

Yet, in the same 1978, PetroCanada made the largest step towards increasing Canadian control over the petroleum and natural gas industry: the Pacific Petroleums Company was bought from its American owners for 1,400 million dollars. Nevertheless, at the beginning of the 1980s, 17 of the 25 largest companies in the industry were more than 50 per cent foreign-owned and accounted for 72 per cent of petroleum and natural gas sales. Still, thanks to the efforts of national state (PetroCanada and the CDC) and private capital (Alberta Energy Company, Nova [formerly the Alberta Gas Trunk Line Co.] and Dome Petroleum) the overall share of Canadian owners in the industry's assets rose to 40 per cent (as against 10 per cent in 1971) and their control over these assets to 36 per cent (as against 22 per cent in 1971).

It was in this context that the National Energy Programme was announced, provoking an explosive response and acute contradictions both in Canada and in American-Canadian relations. It is to be noted right away that contradictions with petroleum industrialists in Alberta concerning mostly growth rates in domestic petroleum prices and adjustment to prices on the world market, and also the taxes on income from petroleum and natural gas extraction and profit-sharing between private business and provincial and federal governments were basically resolved in less than a year. It all began with an acute conflict and ended in a positive compromise.

As to relations with the USA the opposite evolution was observed. American oil monopolies had already started to round up their prospecting effort in Canada and transfer a considerable part of their assets to the USA, while official

Washington continued to put up a good face. Even during his visit to Canada in March 1981, the recently elected President Reagan refrained from criticising the National Energy Programme and assured the opposite side in the talks that his country would fulfill its obligations under the agreement concluded between the countries earlier to jointly build a giant natural gas pipeline along which Alaska gas, together with gas from the Alberta fields, would be delivered to the northern and central US states. The building of the Alaska pipeline which was estimated most recently to cost 35 to 40 billion dollars attracted the Canadian side principally as a source of large orders for the country's industry and an opportunity to increase employment during its construction.

Time passed, however, and the US monopolies largely put up with the new situation (they were treated even worse in the developing countries at times). Meanwhile US government circles finally realised what they were up against in dealing with the Canadian National Energy Programme. It was indeed something unprecedented in the two countries' relations: half of the industry was to be put under national control; state capital would receive at least a 25 per cent share in all projects on federal lands; a differentiated approach was adopted to taxing and financing research and development, prospecting, etc. by national and by foreign companies. It all amounted to a direct contradiction of Reagan's economic philosophy,[56] an attack against sacrosanct principles of free enterprise, unpermissible heresy and where of all places? Here, next-door, in reliable and stable North America!

Apparently, adoption and introduction of the National Energy Programme was the main reason why American-Canadian relations entered a profound crisis at the juncture of 1981 and 1982 (see Chapter Six about the trade and political aspects of that crisis). As distinct from the FIRA issue the conflict concerning the National Energy Programme was never resolved under the Liberal government. Even during the new improvement in relations with the USA on the eve of the elections that proved fatal for the Liberals Trudeau firmly stood his ground on one point—the National Energy Programme remained the bulwark, basis and symbol of the Canadianisation policy. Moreover, the term NEPing appeared in the early 1980s to describe plans or specific attempts to spread state regulation of the petroleum and natural gas industry or some of its elements to other industries, in particular, the mining industry (the usual context, however, was that there would be no NEPing in other spheres of the economy).

The leader of the Conservatives, Brian Mulroney, had not dared attack its basic principles before the elections. Even after coming to power and starting to rid the programme of its anti-American edge he went on talking about its basic principles being inviolable.

Despite his pro-American bias, the leader of the Conservatives, of course, realised that retention of the National Energy Programme in action was a matter of national prestige and necessary to preserve his own popularity. It was possible to abolish discrimination of foreign companies in tax rebates, whet the appetite of PetroCanada, but it seemed too risky an enterprise to call off the historic attempt to restore national control over the key branch of the economy.

Yet who knows? As a result of the so-called Western accord, an agreement between the federal government and the authorities of the energy provinces a decision has been adopted to deregulate oil prices in the country and abolish many taxes and privileges provided for in the programme. Cut a bit here and a bit there, what is left? Only the appearance, while the essence and impact would have been lost, as sometimes an oil well dries out. Finally, in the general context of integration, the consequences of adoption of the National Energy Programme do not appear to be unequivocal. On the one hand, it, of course, put an end to the undivided rule of the American transnationals in Canada's energy sector and deprived them of the possibility to regard Canadian petroleum and natural gas resources as their own. On the other, the major capital investments made by Canadian subsidiaries and national companies in the oil and natural gas industry of the USA (the above-mentioned relocation of financial resources under the programme's impact) in recent years have not weakened but rather have strengthened the linkage between the two countries at the sectoral level. So elements of de-integration are combined here with signs of stronger functional interlocking of the two parts of the continental economy.

One thing, however, is undoubtable: having adopted the National Energy Programme and implemented (at least for a while) some of its propositions, "Canada re-established the right to interfere in its own affairs".[57]

It is from this vantage point that, in our view, one should judge the experience gained as well as potential prospects of the Canadianisation policy in general (irrespective of the party in power at the given historical time). It would seem that there is no question of breaking off regional ties within and between industries of the two countries including those involving capital but rather of a revision and restructuring of such ties with due account for the changed situation. The latter involves, in particular, achievement by Canadian monopoly capital of greater maturity both subjectively, by becoming aware of its national interests, and objectively as a result of its considerably increased financial possibilities. A. G. Kvasov seems to be right when he sees in Canadian finance capital not a desire for de-integration but the urge "to redivide spheres of influence in the continental economic complex".[58] The redivision has indeed started. A major role in it is played by the emerging quite strong counterflow of investments by Canadian companies across the southern border.

How Canadian Direct Investments Come About in the USA and Their Nature

In a highly internationalised, "open" economy such as Canada's the processes of import and export of capital are often closely interwoven, forming a dense network of mutual influences and dependencies. It is to be noted that up to 30 per cent of total Canadian foreign assets are controlled by the same American transnationals which have long-term investments in Canada.[59] However, if the share of national companies is calculated according to direct investment, it proves to be much higher, in the order of four fifths.[60]

This is apparently explained by the fact that the peripheral parts of the ramified production and sales systems of the US transnationals are more frequently controlled not directly through ownership of the controlling interest but with the help of long-term contracts, subcontracts and licences and so on only supplemented by participation in capital via portfolio investment. At the same time Canadian national companies, frequently smaller in size and lacking a complete system of directly international production, as a rule seek to secure maximum possible participation in the capital of foreign firms, up to and including complete ownership (which, incidentally, is typical of non-American investors in Canada gaining control over local firms).

As early as the 1930s 138 subsidiaries and branch plants belonging to 76 Canadian companies were operating in the USA. In the postwar period, investment of Canadian monopolies' capital in the USA became a regular and typical feature. Retaining overall seventh place in current growth of direct investment abroad, Canada recently achieved its absolute increase approximately from 750-800 million US dollars in 1973-1975 to 1,800 million in 1979 and nearly 3,000 million in 1980.[61] As a rule, more than three fourths of such investment goes to the USA. According to estimates based on the latest official figures, the overall size of American assets in Canada in the form of direct investment exceeds similar Canadian assets in the USA only 3.6 times. This means that Canadians have nearly three times more direct investment per capita in the USA than Americans in Canada. Overall, by the beginning of the 1980s Canada had accumulated over 12 billion dollars of direct investment in the USA—slightly over 60 per cent of the country's total foreign assets of this type. And 27 Canadian companies had direct investment abroad in excess of 100 million dollars, 56 companies (41 national ones and 15 representing foreign interests) more than 50 million, 79 companies from 10 to 50 million, 255 companies from one to ten million, and 471 companies up to one million dollars (306 national and 165 foreign).[62]

Experts at the UN estimate that 42.1 per cent of the nearly 2,500 Canadian-controlled firms were located in the USA.[63] According to other data, in 1978 243 Canadian companies had 535 industrial enterprises in the USA registered as their subsidiaries.[64]

A very narrow group of companies plays a decisive role in international investment. Thus, in 1976, the 16 largest companies with direct investment abroad exceeding 100 million dollars each in no less than 5 countries owned 65 per cent of the total sum, while another 21 per cent of direct investment belonged to a group of 49 companies with foreign assets ranging from 25 to 100 million dollars.[65]

In addition, Canadian companies and individuals had a major part in many foreign firms in the form of portfolio investment. Thus, at the end of the 1970s Canadian stock owners had share-holdings (without controlling rights) in more than 1,900 American corporations with assets worth 3,700 million dollars (in terms of balance-sheet value) and 4,300 million (in terms of market value). However, only 20 of them had assets worth more than 25 million dollars, yet these companies accounted for nearly one fourth of the total balance-sheet and market value of Canadian portfolio investment in the USA (4,700 million and 5,400 million dollars respectively). Another 53 US companies whose stock was widely represented in Canadian portfolio holdings had assets ranging from 10 to 25 million dollars each (a total of 800 million dollars both in balance-sheet and market value). Canadians had the largest portfolio holdings in the capital of American companies in the manufacturing industry—1,051 companies with 2,100 million dollars worth of assets (balance-sheet value), including 315 firms (1,000 million dollars worth of assets) in iron and steel products, and also 120 firms with 700 million dollars worth of assets in the petroleum and natural gas industry.[66]

Generally speaking, it is to be noted that Canadian (both national and US-controlled) capital in the USA is located mostly in those industries that have achieved a high degree of development and monopolisation in Canada itself (manufacture of alcoholic beverages, agricultural machinery, ore mining and non-ferrous metals, pulp-and-paper, petroleum and natural gas extraction). Large investments have also been made in the sectors associated with the resources and the manufacturing industries—railways, oil pipelines, real estate and trade. Canada holds nearly a fourth of foreign direct investment in the USA.

The leading mining monopolies of Canada, both national and US-controlled, have turned into real empires with interests in dozens of countries. The developing world is the main sphere of their activity, of course, but many of these companies locate their final downstream production facilities in the USA (Alcan Aluminium and Inco, Ltd.). Noranda Mines was founded in 1922 and specialises in procuring and processing mineral and forest resources in countries on all the continents, with particularly large interests in Latin America, South Africa, and Australia as well as the USA.

The oldest Canadian producer of non-ferrous metals, Cominco, has a geographically dispersed network of production plants the largest of which are situated in the USA (providing for nearly one fourth of the firm's profits). All the above-mentioned Canadian mining companies hold prominent positions in the respective sectors of the world capitalist economy. The same cannot be said about the petroleum firms that are overshadowed by the powerful US transnationals and often reduced to the role of junior partners, but even they have actively directed their efforts to the USA since 1980.

The leading monopolies of Canadian manufacturing had also established their outlets abroad before the Second World War. The pioneer in this field was the largest producer of agricultural equipment, Massey-Harris Harvester, which set up a ramified network first of sales, then of production enterprises in the countries of Europe and the British Commonwealth in the 1920s. The international positions of the company were strengthened still further in the 1950s when it gained control over the leading British producers of diesel engines (Perkins) and tractors (Ferguson). In its present form Massey-Ferguson heads the list of the largest manufacturers of tractors and other agricultural machinery, and the trend towards foreign production and marketing adopted from the very outset by the company has only grown stronger in recent decades. With large production capacities in the USA Massey-Ferguson also remains the leader of North American agricultural engineering. Its international production is highly specialised; grain harvesters, for example, are made in Canada, tractors in the USA and many other countries (depending on model and class of tractor).

Taking advantage of the repealing of prohibition in the USA, the leading whisky makers Seagram and Hiram Walker founded large enterprises in that country which still prosper today. The state monopoly in the manufacture of synthetic rubber, Polymer Corporation (now Polysar), made its way into the USA in the 1950s and 1960s. A leader in the national high-technology industry, Northern Telecom, also set up an impressive network of enterprises in the USA in the 1970s. And in the 1980s Seagram became (through its holding company) the largest shareholder (22 per cent) of the world famed Du Pont chemical monopoly. The Canadian Norcen Energy is the largest shareholder of the

Hanna Mining (iron ore) and Brascan (Canada's oldest international holding company which does business for the Bronfman brothers) is the largest shareholder of the Scott Paper monopoly.

The postwar decades witnessed a powerful thrust abroad by leading Canadian banks. The largest one, Royal Bank of Canada has opened branches in 45 countries and controls a host of foreign financial institutions. After a more liberal bank legislation was adopted in 1980 national commercial banks gained wider opportunities on the basis of reciprocity to develop their networks and operations abroad.

All five leading commercial banks of the country are energetically developing the network of their branches and subsidiaries in the USA where they already control about 45 billion US dollars' worth of assets (as compared with 8 billion US dollars' worth controlled by American banks in Canada's financial sphere).[6 7] Over a decade total foreign assets belonging to the Big Five increased ten times over. At the beginning of the 1980s the Canadian Imperial Bank of Commerce had 12 branches in the US and its own subsidiary, California Canadian Bank, on the western seaboard. The Bank of Montreal operates in six US states, and the Bank of Nova Scotia in as many as ten. As to the Royal Bank of Canada, its activity in the USA has assumed such scope that in 1979 special headquarters were opened in New York to run its American branches. Since Canada's domestic credit market has virtually been divided up between those same commercial banks, foreign activity has become the principal source for them to raise the rates and size of their profits.

The assets and operations of leaders in the insurance sphere—Metropolitan Life, Sun Life and National Life, the country's largest trust, the Royal Trust Company (a member of the Brascan empire), and the trade giant George Weston controlling several food store chains (Loblaw Cos., National Tea, Douglas Kelly) in the USA—have acquired a clearly international character. The leading companies in real estate—Olympia and York, Trizec and Cadillac Fairview—actively deal in construction sites, buildings and facilities in the USA where they hold first place among foreign companies in total scale of operations.

As distinct from American direct investment in Canada, the balance-sheet value of Canadian capital investment in the USA grows by means of direct inflow of capital rather than as a result of reinvestment. At the same time data concerning the balance of payments does not enable us to determine precisely which part of the capital outflow has to do with foreign investment and which part with liquidation of foreign assets in the country, particularly under the impact of the Canadianisation policy. For example, foreign investment in the Canadian petroleum and natural gas industry decreased by 110 million dollars in 1979, while the net growth of Canada's direct investment in fuel and energy industries abroad constituted 242 million dollars.

Both the greater share of reinvestment and the larger outflow under capital movement accounts have to do with the "older age" of most American investments in Canada. According to the US Treasury, 10 years on an average are required for receipts of the US balance of payments to compensate completely the sum of initial direct investment in Canada. From that moment on the net drain of capital from the country imposes a growing burden on the balance of payments. Back in 1977 the US Department of Commerce first recorded a larger drain of capital from Canada as compared with resources directed to increase direct investment in that country.

It would also seem appropriate to recall the tendency to relocate capital investment of American monopolies operating in Canada, i.e. to gradually transfer their production to the USA, closer to the larger sales markets, in order to raise efficiency. This relatively new phenomenon, developing under the impact of a whole set of factors (among which mention is made of the lower price of construction work and equipment in the USA, abundant and easily accessible relatively cheap credits, savings on transportation costs, more favourable taxes, proximity of the leading monopolies' research centres, etc.), provokes growing concern in the country. It is to be noted, however, that objectively speaking, such relocation usually signifies not weakening of integrational links, and even less, a rejection of international specialisation and cooperation, but on the contrary, their further extension. It is not to be forgotten, however, that these processes develop in forms which contradict Canada's national interests, because they promote the unequal nature of the division of labour in the region. Many monopolies that mostly extract raw materials in Canada are represented almost exclusively by enterprises in the manufacturing industry to the south of the border.

A factor making the investment process in the USA more difficult for Canadian monopolies at the beginning of the 1980s was the anger in US government quarters due to the Canadianisation policy. It was urged that an agency similar to the Canadian FIRA be set up in the USA to undertake counter-measures in case of "discrimination against American investors" in Canada. All this smacked of imperial egoism and lacked any serious economic basis. Talk about "the sell-out of America" went on in a context where Canadian-based companies controlled only 0.45 per cent of the assets of American non-financial institutions.[68] Nevertheless, as a result of the noisy anti-Canadian campaign launched in the USA following the publication of the National Energy Programme, the House of Representatives of the US Congress approved a bill banning purchase of real estate in the country with money more than half of which came from foreign bank loans.[69]

At the same time acute rivalry flares up occasionally at state level for Canadian investors (as had been the case with Canadian provinces). Florida has become a favourite place for Canadian businessmen seeking to buy real estate in the USA. A relatively large amount of Canadian capital has been invested in Ohio and Kentucky (the latter known in a lighter vein as the eleventh province). Canadian businessmen have been attracted to Kentucky by, among other things, more favourable tax laws and to Ohio by the same factor plus lower wages at industrial enterprises as compared with industrial areas in Ontario (a paradox that had seemed inconceivable some two-three decades previously).

Despite financial and other difficulties, investment activities by Canadian companies abroad are growing, on the whole, at a steep rate. Since the mid-1970s Canada, for example, has regularly accounted for the largest number and largest total value of deals involving control over American firms passing into foreign hands (292 deals or 24.3 per cent of the total number valued at over 10,000 million US dollars as compared with, for example, Japan's 129 deals worth 1,200 million dollars).[70] The flow of capital from the country in the form of direct investment is supplemented every year by large sums (100 to 150 million dollars) comprising the net balance of purchases and sales by Canadian citizens, pension funds, etc. of securities (mostly shares) belonging to foreign companies (purchases of foreign securities are estimated at 900 to 1,100 million dollars a year).[71]

Whatever the reasons for the growth of Canadian assets in leaps and bounds in the USA—and this is a multifactor, intricate process in which, for example, the above-mentioned tendency for transnationals incorporated in Canada (in particular, the petroleum corporations) to transfer an increasing part of their production facilities to the USA—it signifies further development of links between industrial and financial companies of the two countries in capital. And, evidently, this development is marked by an overall growth of the role played by Canada's monopoly capital in the North American economy.

Thus, although contradictions involved in foreign investment in Canada have obviously grown sharper, the process of the international interlocking of monopoly capital is continuing in the region. The increasing socialisation of regional production within the North American transnationals and deepening bilateral relations in capital still play the part of the chief adhesive in the rise of the USA-Canada interstate economic complex.

As to the growing community of economic interests in the region, which is reflected in the system of stable long-term links based on specialisation and cooperation and further extension and deepening of the North American division of labour, let us turn to an analysis of mutual trade between the two countries to reveal trends developing in this sphere.

[1] See, for example: Duncan Cameron, *Canada and the Third World Economic Order*, University of Ottawa, Ottawa, April 1982.

[2] Alan M. Rugman, *Multinationals in Canada: Theory, Performance and Economic Impact*, Murtinus Nijhoff Publishers, Boston, 1980.

[3] D. Cameron, *op. cit.*, p. 35.

[4] See A. M. Rugman, *op. cit.*, pp. 23-44.

[5] *Canadian Journal of Economics*, February 1974, p. 44.

[6] *Canada's International Investment Position, 1978*, Ottawa, 1982, pp. 102-103.

[7] *Canada's International Investment Position, 1979* and 1980, Ottawa, 1984, pp. 70-72, 74, 82.

[8] *Canada's International Investment Position, 1978*, pp. 63-67.

[9] *Ibid.*, pp. 96-97.

[10-11] *Canada and the United States: Transnational and Transgovernmental Relations*, Columbia University Press, New York, 1976, p. 268.

[12] *Canada's International Investment Position, 1978*, pp. 80, 88-89.
[13] *CALURA. Report for 1981* (Part I—Corporations), Ottawa, 1984, p. 20.
[14] *Survey of Current Business*, August 1983, pp. 19, 23-24, 26; *Canada's International Investment Position, 1978*, pp. 122-23.
[15] *CALURA. Report for 1981*, Part I, p. 24.
[16] *Survey of Current Business*, August 1983, p. 19.
[17] *Department of External Affairs. Statements and Speeches*, Ottawa, No 83/5, 1983.
[18] *Canada's International Investment Position, 1978*, pp. 106-107.
[19] *Transnational Corporations in World Development. Third Survey*, United Nations, New York, 1983, p. 334.
[20] *Statistics Canada Daily*, April 3, 1984.
[21] *CALURA. Report for 1981*, Part I, pp. 21, 24.
[22] *Foreign Ownership and the Structure of the Canadian Economy*, Ottawa, 1968, p. 141.
[23] V. A. Tishkov, L. V. Koshelev, *A History of Canada*, Moscow, 1982, p. 193 (in Russian).
[24] *CALURA. Report for 1981*, Part I, p. 38.
[25] Calculated according to: *Canadian Business*, January 1983, pp. 87-112.
[26] *The Financial Post 500* (Supplement to *The Financial Post*), Summer 1985, pp. 68-94.
[27] *CALURA. Report for 1981*, Part I, pp. 48, 56, 240, 262.
[28] *The Financial Post 500* (Supplement to *The Financial Post*), Summer 1985, pp. 68-69.
[29] See: *Natural Resources in U.S.-Canadian Relations*, Vol. I, ("The Evolution of Policies and Issues"), Westview Press, Colorado, 1980, pp. 146-47.
[30] B. W. Wilkinson, *Canada in the Changing World Economy*, C. D. Howe Research Institute, Montreal, 1980, p. 93.
[31] A. E. Safarian, "Foreign Investment in Primary Industries", in: *Canada-United States Relations*. (Proceedings of the Academy of Political Science), Vol. 32, No 2, New York, 1976, pp. 79-80.
[32] Wallace Clement, *Continental Corporate Power. Economic Elite Linkages between Canada and the United States*, McClelland and Stewart, Toronto, 1977, p. 92.
[33] A. M. Rugman, *op. cit.*, p. 41.
[34] *Canada and the United States: Transnational and Transgovernmental Relations*, p. 121.
[35] K. C. Crowe, *America for Sale. An Alarming Look at How Foreign Money Is Buying Our Country*, New York, 1980, pp. 261-62.
[36] *The Financial Post 500. The 1980 Ranking of Canada's 500 Largest Companies. Special Report*, Toronto, Summer 1980, p. 36.
[37] *Foreign Ownership and the Structure of the Canadian Economy*, Ottawa, 1968; *Foreign Direct Investment in Canada*, Ottawa, 1972.
[38] Stephen Clarkson, *Canada and the Reagan Challenge. Crisis in Canadian-American Relationship*, James Lorimer & Company, Toronto, 1982, p. 56.
[39] *Canada and the United States: Transnational and Transgovernmental Relations*, p. 133.
[40] Similar processes have gained headway in Mexico during the last two decades. A law on Mexicanisation of the mining industry was adopted in 1961, and in obtaining new concessions foreign companies have since then been allowed to own not more than a third of the capital. Exploitation of oil, natural gas, uranium, sulphur, potassium and phosphate deposits is completely in government hands. The 1961 law provided for the "buying back" of national industry over 25 years,

but practically, most firms passed under Mexican control during the first decade.

[41] *Canada-United States Relations*, Vol. II ("Canada's Trade Relations with the United States"), The Standing Senate Committee on Foreign Affairs, Ottawa, 1978, p. 28.

[42] *U.S. Embassy. Annual Review of the Canadian Economy 1977*, Ottawa, 1978.

[43] Harald Von Riekhoff, J. H. Sigler, B. W. Tomlin, *Canadian-US Relations: Policy Environments, Issues, and Prospects*, D. C. Howe Research Institute, Montreal, 1979, pp. 87-88.

[44] See, for example: *Natural Resources in U.S.-Canadian Relations*, Vol. I.

[45] *Department of External Affairs, Statements and Speeches*, Ottawa, 1983, No 83/5.

[46] *Canada. Lloyds Bank Group Economic Report, 1984*. Printed by Lloyds International, London, January 1984, p. 26.

[47] *Financial Times of Canada*, September 28, 1981.

[48] *Journal of Commerce*, April 20, 1982.

[49] *Report on the Nation: the New Realities*, (in: Supplement to *The Financial Post*) Winter 1983/84, p. 83.

[50] S. Clarkson, *op. cit.*, p. 177.

[51] *SShA: ekonomika, politika, ideologiya*, No 2, 1985, p. 35.

[52] *The Financial Post 500* (Supplement to *The Financial Post*), Summer 1985, pp. 12, 33.

[53] See: *National Energy Board. On the Matter of Exploration of Oil*, Ottawa, 1974; *National Energy Board. Supply and Requirements*, Ottawa, September 1975.

[54] *Energy, Mines and Resources Canada (EMR). An Energy Strategy for Canada: Policies for Self-Reliance*, Ottawa, 1976. For its part, the USA published its own National Energy Plan in 1977, a further elaboration of the Independence programme (1974) and also aimed at increasing the country's self-sufficiency in fuel and power.

[55] *EMP. Financial Energy Self-Reliance*, Ottawa, 1977, p. IV.

[56] S. Clarkson, *op. cit.*, p. 57.

[57] *Ibid.*, p. 82.

[58] *SShA: ekonomika, politika, ideologiya*, No 2, 1985, p. 35.

[59] S. Globerman, *U.S. Ownership of Firms in Canada*, Montreal, 1979, p. 6; *Canada and the United States: Transnational and Transgovernmental Relations*, p. 136.

[60] *Statistics Canada Weekly*, November 18, 1982.

[61] *Salient Features and Trends in Foreign Direct Investment*, United Nations, New York, 1983, p. 33.

[62] *Canada's International Investment Position*, 1978, pp. 54, 56-57.

[63] *Transnational Corporations in World Development. Third Survey*, United Nations, New York, 1983, p. 326.

[64] J. S. Arpan, D. A. Ricks, *A Directory of Foreign Manufacturers in the U.S.*, Atlanta, 1979, p. 8.

[65] J. Niosi, *Les multinationales cannadiennes*, Quebec, 1982, p.53.

[66] *Canada's International Investment Position, 1978*, pp. 126, 127.

[67] *The Banker*, March 1982, pp. 55-56.

[68] S. Clarkson, *op. cit.*, p. 103.

[69] See: *Financial Times of Canada*, November 23, 1981.

[70] *U. S. Department of Commerce. Foreign Direct Investment in the United States, 1981, Transactions*, U.S. Government Printing Office, Washington, 1982, pp. 4-6.

[71] *Statistics Canada Daily*, April 16, 1984.

PART TWO

PROBLEMS AND PROSPECTS IN LIBERALISATION OF BILATERAL TRADE

Chapter Five

The Specific Structure of the Mutual Trade Turnover and Competitiveness of Canadian Industry

The growing internationalisation of the Canadian economy as a result of interlocking of capital within the region and the emergence of directly international (continental) production (important components of which are located in Canada) with the participation of national and American monopolies naturally has had an increasing impact on the two countries' foreign trade relations causing them to be deeply and fundamentally restructured. The usual commercial trade developing mostly spontaneously and aimed at gaining trade profit based on the principle of comparative costs is increasingly being replaced by long-term contract relations between suppliers and buyers founded on international specialisation and cooperation in production, i.e. stable production and technology links. With increasing frequency we are dealing not with pure market relations between independent producers and consumers of some product but with exchange of raw and other materials, intermediate and end products between individual components of one and the same "North American" monopoly. That exchange is called upon to provide for the monopoly's vital activity as a complex and ramified body, its regular "metabolism" thereby raising gross productivity and efficiency of the production and sales system and laying the basis for the successful sale of the transnationals' end products.

The market form of such relations largely no longer corresponds to their objective content reflecting the need for direct ties under the intracompany division of labour "in singular" which, in this case, has transcended not only the individual enterprise but has even gone beyond the borders of the home country. Correspondingly, the function of the transfer prices used proves to be largely different: these prices are called upon not just to provide for equivalent exchange but rather to redistribute the company's total resources with the aim of optimising final financial results, including optimisation by saving on taxes paid by the monopoly's enterprises located to both sides of the border.

Offering different estimates of the share of such intracompany commodity flows in world capitalist trade, Western analysts as a rule concur that they play far from similar roles in the foreign trade relations of various countries, and the relevant data serve as an important criterion of a national economy's involvement in world economic, including integrational, processes. As to Canada, estimates of the intracompany portion of its foreign trade are quite unanimous. A survey of 51 major foreign companies in Canada conducted by the Ministry for Industry, Trade, and Commerce showed that on an average between 1970 and 1977 intracompany deliveries constituted 91 per cent of their total export, and if the Auto-Pact is disregarded, 55 per cent.[1] Experts from the Economic Council of Canada, a non-profit government research organisation founded in 1963, believe that the share of intracompany export in the country's total commodity export rose from 63 per cent in 1965 to about 80 per cent in the 1970s.[2] There is no doubt that this is the most firmly sustained portion of Canadian export trade relatively less susceptible to spontaneous fluctuations under the impact of changes in the world market.

Shipments within corporations also constitute a growing part of import flows. According to the same Council, approximately 87 per cent of Canadian import from the USA in 1978 consisted of purchase of subsidiaries and branch plants belonging to American monopolies. Taken by sectors, the share of intracompany trade ranged from 28 per cent in the food industry to 87 per cent in the petroleum and natural gas industry. Figures of the same order were found in one of the latest government papers compiled by the Liberals in which it was indicated that 72 per cent of all Canadian import in 1978 was by companies controlled by foreign capital. And 50 of the largest importers held in their hands nearly half of total import, while 35 of them were foreign-controlled (26 American-controlled).[3] Many of these firms bought equipment from their parent companies in the USA in amounts often exceeding their own domestic needs, playing the part of wholesale dealers for companies in Canada that did not have direct relations with foreign suppliers of modern technology.

It would seem to be undoubtable that Canada belongs to those countries whose social reproduction is largely influenced by external factors primarily revealed through foreign trade channels. Since the early 1980s up to 60 per cent of the gross national product has gone through these channels in some form. Calculated according to the aggregate value of commodities and services, the export quota makes up a sustained 30 per cent of the GNP and an equal amount flows into the country through commodity import and as a result of services obtained abroad. For the sake of comparison, let us point out that the member countries of the Organisation for Economic Cooperation and Development (OECD) had an average export quota in commodities and services of only 20 per cent, the USA—10 per cent, Japan—14 per cent, and Australia—18 per cent in 1980. The figure was much higher than Canada's for such countries as Holland and particularly Belgium, but these are small countries and over half of their foreign turnover in commodities and services was concentrated in the EEC.

Calculated in terms of commodity export, the share of the GDP flowing abroad every year also increases quite steadily, approximately reaching the level of West Germany and the United Kingdom and constituting over 27 per cent in 1983 (as against 10 per cent for the USA, 16 per cent for Japan and around 23-24 per cent for France and Italy).[4] In the absolute size of commodity export Canada takes 7th or 8th place in the capitalist world, very close to Italy, and in per capita value of exports (nearly 4,500 dollars in 1984) leaves all the other major trade powers except for West Germany far behind.

While the ratio between Canada and the USA in many important macro-economic indicators including the GNP and population size is 1:9 or 1:10, in the value of foreign trade the proportion reaches 1:3, and in per capita terms Canada's foreign trade exchange is 2.5-3 times greater than that of the USA (or that of Japan and say, Australia, whose production structure is largely similar to Canada's).

The specific structure of Canadian foreign trade is immediately apparent, and it reflects the country's special position in the international division of labour. The share of finished products in its import is higher than for the other industrially developed capitalist states except for Australia. In per capita terms Canadian import of finished goods exceeds America's more than four times. At the same time, while the share of its own energy resources in consumption is about 75 per cent, Canada buys relatively less fuel abroad than the other OECD countries. Simultaneously, a larger part of its export consists of industrial raw materials and semi-processed goods. Although unprocessed primary materials make up only one fourth of Canada's deliveries abroad as against two thirds for Australia or Mexico, the figure is, nevertheless, unusual for a highly developed industrial power which Canada undoubtedly is.

The main cause of such an exotic foreign trade structure has been described in detail above. It has resulted from the stepped up development of resources industries in the country on the basis of rich mineral and forest resources under the influence of the massive and unhindered inflow of US private capital. The domination of American monopolies has to a considerable extent led to a situation where the secondary manufacturing industries have been insufficiently developed while import of finished goods has been hypertrophied, and the resources and primary sectors (steel and non-ferrous metals, sawmills and pulp-and-paper) were clearly directed towards export.

The fact that Canada has drawn closer to the USA in economic terms, the major feature of Canada's development in the postwar period, provides the key to the understanding of another fundamental trait of Canada's foreign trade: its export deliveries and import purchases are strongly and increasingly focussed on the American market. Even in better years, all of Canada's other trade partners taken together accounted for just slightly more than a third of its export, while the share of the USA in Canadian import has been sustained at over 70 per cent (see Table 11).

A truly enormous growth of the Canadian foreign trade turnover occurred over thirty-odd years: from 6.4 billion dollars in 1950 to 11 billion in 1960 to 30.8 billion in 1970 and 208 billion dollars in 1984. While the overall tendency for growth remained, the impact of cyclical fluctuations on foreign trade was felt during certain years. This involved both processes in the national economy (mostly through imports) and the American economy (primarily through ex-

Table 11

Geographical Distribution of Canadian Foreign Trade

	1975		1980		1984	
	billions of dollars	per cent	billions of dollars	per cent	billions of dollars	per cent
Total export*	33.1	100	75.9	100	112.5	100
USA	21.7	65.4	48.1	63.3	82.8	73.6
Western Europe	4.7	14.2	11.3	14.8	7.9	7.1
EEC	4.1	12.1	9.7	12.7	6.9	6.2
United Kingdom	1.8	5.4	3.2	4.3	2.4	2.2
Countries in Asia	3.3	9.9	7.5	9.9	9.7	8.7
Japan	2.1	6.4	4.4	5.8	5.6	5.0
Total import	34.6	100	69.0	100	95.8	100
USA	23.6	68.0	48.4	70.2	68.5	71.5
Western Europe	4.1	11.8	7.0	10.1	10.0	10.5
EEC	3.2	9.2	5.5	8.0	8.2	8.6
United Kingdom	1.2	3.5	2.0	2.9	2.3	2.4
Countries in Asia	2.0	5.8	5.0	7.3	10.3	10.8
Japan	1.2	3.5	2.8	4.1	5.7	6.0

* Including re-export.

Calculated according to: *Canadian Statistical Review*, March 1976; *Ibid*., March 1981; *Summary of External Trade*, Ottawa, December 1984.

ports). In the last decade, for example, the consequences of lower business activity in the highly integrated North American economy were clearly seen in Canada's trade data for 1975, 1976, 1980 and 1982. The dynamics of value indicators, however, were significantly distorted by abrupt changes in world market prices (above all, natural fuel and industrial raw material prices). Thus, the cyclic crisis in a number of American industries in 1975 contributed to a 5 per cent fall in the volume of Canadian export, yet in terms of value it actually increased (by 1.8 per cent).

Canada's foreign trade grew at a much faster rate in the 1970s and 1980s than its macro-economic indicators, whether the Gross Domestic Product, volume of output of goods or the general industrial index. The associated sustained rise in the export quota was in sharp contrast to the decline in the country's overall share in world capitalist trade—a sign that it was lagging behind the main trade powers in terms of growth and, in the final count, insufficiently competitive on a number of commodity markets.

According to UN statistics, Canada accounted for 5.2 per cent of world exports and 4 per cent of the imports in 1970: in the early 1980s both figures were stabilised approximately at 3 per cent. The share of Canadian exporters fell particularly sharply on the world machinery and equipment markets. In 1965-1980 the average growth rate of export in this commodity group, more than 19 per cent a year (!), did not, however, enable Canada to maintain its positions (the figure for Japan, for example, was nearly 25 per cent). According to some estimates, the decline in the country's share in world capitalist trade as compared with the 1970s level deprived its industry of approximately 700,000 jobs.[5]

Signs of the Complementary Nature, Interlocking and Mutual Influence of the Two National Economies

During Canada's entire contemporary history, an exceptionally strong trade linkage to the American economy has been its boon and damnation. It is a boon because the USA possesses the largest national sales market in the world and the most powerful industrial potential capable of satisfying almost every need a trade partner might have. And it is a damnation because a strong dependence on such a powerful partner has made the country more vulnerable and cast doubt on the soundness of its national sovereignty. The crisis marking the early 1980s showed once again that this was so, and particularly clearly on the example of the automotive industry which is most highly integrated with its American counterpart.

The USA and Canada remain the major trade partners for each other. Their bilateral turnover reached 151 billion dollars in 1984. With only one thirteenth of the population of the Western European EEC countries, Canada imports approximately the same amount of American goods, which is two times more than Japan with its population of 100 million and 4 to 5 times more than Mexico or the United Kingdom. Canada's share in US export and import has been between 20 and 25 per cent, and in a whole range of goods, it is the chief source for the supply of American industry. Thus Canada's deliveries practically fully meet the import needs of the USA in natural gas, potassium salt, uranium, pulp and paper, newsprint, and asbestos, more than four fifths of US needs in lumber, about two thirds in aluminium, nickel, molybdenum, and half in zinc and copper.[6]

For its part nearly 15 per cent of the Canadian Gross National Product originates in one way or another from its trade with the USA (either through exports or imports). By some estimates every second job in production of goods is directly or indirectly related to servicing the American market.[7] The US-Canadian turnover in one commodity group (automotive) exceeds Canada's entire trade with Western Europe and Japan combined. Export to the USA exceeds Canada's shipments to its second largest external market 14 times over. The year 1984 was marked by a particularly large rise in Canadian export deliveries to the USA: just the increase in these deliveries was larger than Canada's trade with Western Europe and Japan combined.

Complex calculations made by Y.V. Shishkov show that mutual attraction between the Western European countries as trade partners was much weaker in the mid-1970s than between the USA and Canada. Even among the EEC Six, the force of trade interlocking became comparable to that operating in the North American region only in the mid-1970s.[8]

As noted above, the structure of Canadian export trade is traditionally distinguished by a peculiarity reflecting both the country's exceptional wealth and variety of natural resources, and a certain disproportion in its economy due to insufficient development and immaturity of the manufacturing sector.

These conditions rooted in natural and historical circumstances are clearly borne out in the analysis of degree of self-sufficiency and the country's export quota both in the main agricultural, forest and mineral raw materials, on the one hand, and products of the manufacturing industry, on the other, i.e. in semi-manufactured products and finished goods. Thus, export yields more than half the gross incomes earned by farmers (as against approximately a third for American producers of agricultural raw materials and food). About four fifths of the annual grain harvest is exported abroad. In the mining industry output exceeds the country's domestic needs more than 40 times in asbestos, 20 to 23 times in nickel and potassium, 8-9 times in cobalt, molybdenum and zinc, 3-4 times in copper, lead, gold, silver and tungsten and 2.5 times in natural gas.[9] Oil output approximately corresponds to domestic demand, but for various reasons, both subjective having to do with production and commercial interests of American monopolies and objective—the need to economise on transportation costs of this large-volume product, a considerable part of the liquid fuel obtained is exported and the deficit is made up for by imports.

In the manufacturing sector production capacity exceeds domestic needs 3-4 times in paper output, 1.5 to 2 times in pulp, 2 to 2.5 times in lumber, and 1.3 to 1.8 times in metal smelting. While the average export quota for all manufacturing is 30 per cent (itself a rather high percentage), it is more than two thirds in transportation equipment industries, three fifths in the pulp-and-paper industry, and about a half or more in ferrous and non-ferrous metals, machinery industries and wood industries (see Table 12). Yet there are many other industries clearly intended to provide mostly for the domestic market and still hardly involved in export trade (consumer goods, food, furniture, fabricated metal products, processing of oil, coal and other non-metallic minerals).

There is a wide range of commodities and commodity groups in the export of which Canada occupies a leading place in the capitalist world. Nearly all of them, however, belong to the group of raw material products and industrial semi-manufactured goods. In most of these goods the country typically has a share of from 10 to 25 per cent, although there are some in which the Canadian share reaches over a third and even half of world capitalist trade.

The country holds an uncontested first place in export of fresh fish, softwood, pulp and paper, ores and certain concentrated rare and precious metals, paper and cardboard, nickel and zinc. It holds leading positions in export of grain, particularly wheat and barley, oil seeds, iron and polymetal ores, fertilizer, aluminium and gold items (from second to fifth place among supplier countries). While it does not stand out against the background of overall world trade, Canadian export is very large in alcoholic beverages (7th place), synthetic rubber (6th), crude oil (16th place, but a major role in supplying northern and central areas of the USA), copper, silver and platinum (6th).

Canada is also known as one of the world's largest producers and exporters of agricultural machinery, aircraft, and

Table 12

Export Orientation of Major Manufacturing Sectors in Canada and Their Dependence on Import

	1966-1973		1973-1980		1981	
	A	B	A	B	A	B
Total manufacturing	24	26	28	31	30	32
including:						
Food and beverages	10	7	11	10	13	9
Textiles	5	24	6	27	8	27
Clothing	4	7	5	11	7	14
Wood	43	9	48	12	47	11
Pulp and paper	51	6	56	10	60	11
Petroleum and coal products	4	10	7	4	9	4
Chemicals	15	26	23	31	29	31
Primary metals	46	24	48	30	54	40
Machinery and equipment including:						
machinery	34	66	49	87	54	76
transportation equipment	60	62	69	72	68	72
electrical products	13	27	17	37	24	42

A—ratio of export to value of overall shipments, per cent
B—ratio of import to value of sales on Canada's domestic market, per cent
Source: *A Review of Canadian Trade Policy*; *A Background Document to Canadian Trade Policy for the 1980s*, Canadian Governement Publishing Centre, Ottawa, 1983, pp. 31-32.

electrical motors for transport. In the North American automotive industry Canada is a particularly large supplier of trucks, and in recent years, of a broad range of parts and accessories delivered mostly by the subsidiaries of the American Big Three to their parent companies in the USA. The country's range of exported products also features major deliveries of automobile engines and cars (6th place), tractors and equipment for pulp-and-paper mills (8th), construction machinery (7th), cranes and transportation equipment (9th). Most of these products are directly related to the resources sectors of Canada's own industry in supplying which Canadian engineering has gained experience of international scope. Finally, Canada occupies a prominent place in world capitalist trade of such science-intensive items as computers (6th) and communications equipment (10th place, but a rapidly growing share of the market and a particularly high reputation for product quality).[10] Naturally, the particular international specialisation of Canadian producers outlined above has an even clearer and more direct impact on the structure of Canadian export to the USA.

On the whole, the structure of the two countries' reciprocal trade turnover reveals that their economies are to a high degree mutually complementary. According to average Canadian figures for a number of years unprocessed raw materials account for about one fifth of Canada's exports to the USA, industrial semi-manufactured goods for up to one third, finished products (excluding food) for slightly more than two fifths and the rest (food and beverages) for 5-6 per cent. The raw materials group consists mostly of the output of the mining, petroleum and natural gas industries (natural gas, crude oil, iron ore, asbestos, natural and concentrated ores of non-ferrous and rare metals). Deliveries of industrial semi-manufactured goods are divided approximately equally into wood, paper and allied industries, on the one hand, and ferrous and non-ferrous metals, and also chemicals, on the other. Finally, a growing share of exported finished products (about a third of total Canadian exports to the USA in the early 1980s) goes to motor vehicles and parts. All other equipment, including aircraft, agricultural machinery and communications equipment, accounts for only 7-8 per cent. It is interesting that machinery and equipment, excluding transportation equipment, accounts for about the same share in Mexico's export. Whisky, fish and fish products are the principal commodities in food export.

Finally, our idea of the current commodity structure of national export as a whole, and export to the USA in particular, is considerably supplemented by Table 13 compiled on the basis of the latest official trade statistics from Canada. Comparison of this table with the above data on geographical distribution of export (Table 11) makes it possible to conclude that a decisive impact on structural changes is made by the dynamics of the US market which remains the most important one for Canadian exporters and has absorbed an even larger share of the country's exports since the early 1980s than was the case, for example, in the mid-1970s. It is known that in years of crisis, deliveries to over-

Table 13

Structure of Exports
(according to national classification)

	1975		1980		1984	
	million dollars	per cent	million dollars	per cent	million dollars	per cent**
Total*	32,325	100	74,223	100	109,543	100 (76)
Food, feed, beverages and tobacco (incl. live animals)	4,096	12.7	8,201	11.0	10,818	9.8 (31)
meat and meat preparations	167	0.5	517	0.7	755	0.7 (72)
fish and fish products	409	1.3	1,150	1.6	1,573	1.4 (61)
wheat	2,001	6.2	3,790	5.1	4,710	4.3 (1)
Crude materials, inedible	7,950	24.6	14,752	19.9	17,351	15.8 (61)
ores, concentrates, scrap	2,229	6.9	4,190	5.7	3,670	3.4 (39)
crude petroleum	3,051	9.4	2,893	3.9	4,390	4.0 (99)
natural gas	1,092	3.4	3,979	5.4	3,886	3.6 (100)
asbestos, unmanufactured	302	0.9	620	0.8	497	0.5 (15)
Fabricated materials, inedible	9,840	30.4	29,309	39.5	35,990	32.8 (77)
lumber	972	3.0	3,344	4.5	4,254	3.9 (78)
wood pulp	1,826	5.7	3,862	5.2	3,908	3.6 (53)
newsprint	1,742	5.4	3,672	5.0	4,784	4.4 (85)
chemicals	352	1.1	2,026	2.7	5,299	4.8 (66)
fertilizers	456	1.4	1,246	1.7	1,530	1.4 (62)
primary iron and steel	746	2.3	2,021	2.8	2,227	2.0 (90)
aluminium	437	1.4	1,528	2.1	1,900	1.7 (76)
copper	475	1.5	990	1.3	799	0.7 (60)
nickel	413	1.3	814	1.1	563	0.5 (61)
zinc	204	0.6	422	0.6	678	0.6 (67)
End products,inedible	10,358	32.1	21,715	29.3	44,990	41.1 (91)
machinery	1,424	4.4	3,047	4.1	2,844	2.6 (74)
motor vehicles and parts	6,349	19.7	10,810	14.6	29,405	26.8 (98)
communications equipment	351	1.1	1,019	1.4	2,526	2.3 (71)

* Excluding re-export
** The share of exports going to the USA is shown in brackets
Calculated according to: *Canadian Statistical Review*, Statistics Canada, March 1976, March 1981; *Summary of External Trade*, Ottawa, December 1984.

Table 14

Structur
(according to national

	1975	
	$ millions	per cent
Total	34,635	100
Food, feed, beverages and tobacco (incl. live animals)	2,681	7.7
coffee, cocoa, tea	252	0.7
Crude materials, inedible	5,087	14.7
aluminium ores and concentrates	133	0.4
crude petroleum	3,303	9.5
coal	576	1.7
Fabricated materials, inedible	5,944	17.2
chemicals	535	1.6
plastics and synthetic rubber	468	1.4
iron and steel products	919	2.7
non-ferrous metals	426	1.2
End products, inedible	20,597	59.5
machinery	4,445	12.8
motor vehicles and parts	8,137	23.5
aircraft and parts	695	2.0
communications equipment	852	2.5
electrical products	444	1.3
office equipment	685	2.0
consumer goods and household appliances	1,456	4.2

seas markets decline particularly sharply, and not only in relative terms but also absolutely. Yet these markets traditionally account for sale of most of the semi-manufactured goods exported by Canadian companies as distinct from unprocessed raw materials supplied primarily to the USA. It is also important to point out that a relatively large increase in export value in 1983 had to do with the upturn in the USA, while Western Europe and Japan had not overcome the consequences of the recession and their purchases in Canada stagnated or even continued to decline.

In analysing structural data on Canadian imports we find three basic trends of change in its commodity range: a significant fall in the role of purchase of raw materials—minerals, agricultural products and also food; a relatively stable (al-

of Imports
classification)

1980		1984	
$ millions	per cent	$ millions	per cent*
68,974	100	95,754	100 (71)
4,763	7.0	5,904	6.2 (54)
656	1.0	746	0.8 (26)
11,261	16.3	7,994	8.4 (51)
352	0.5	500	0.5 (17)
6,871	10.0	3,376	3.5 (15)
806	1.2	1,094	1.1 (100)
12,677	18.4	17,208	18.0 (69)
1,273	1.8	3,566	3.7 (74)
979	1.4	1,644	1.7 (87)
1,415	2.0	1,641	1.7 (46)
2,567	3.7	2,258	2.4 (80)
39,482	57.3	63,111	65.9 (76)
8,829	12.8	6,617	6.9 (74)
13,470	19.5	26,461	27.6 (87)
1,829	2.7	2,230	2.3 (94)
2,239	3.3	4,674	4.9 (59)
766	1.1	1,429	1.5 (85)
1,896	2.8	4,365	4.6 (89)
2,662	3.9	4,193	4.4 (22)

* The percentage of imports from the USA is in brackets
Calculated according to: *Canadian Statistical Review*, Statistics Canada, March 1976, March 1981; *Summary of External Trade*, Ottawa, December 1984.

though slightly decreasing during the crisis) share of industrial semi-manufactured goods; persistent rise in the relative importance of finished products as a whole and of most of their subgroups (see Table 14).

In the 1980s less than 7 per cent of the country's imports fall to food products. Canada imports a relatively large amount of fruit and vegetables (canned and fresh), nuts, sugar (more than a million tons), coffee, cocoa, tea, wine and liquor. Relatively little meat and fish is imported, only as a supplement to its own reserves. About half the deliveries of food come from the USA.

Crude oil remains the largest single item among non-food raw materials, although its deliveries are steadily declining both in value and in volume (57 million tons in 1973, 26 million in 1981, less than 20 million in 1983). If in 1971 up to two thirds of oil came from Venezuela, and at the end of the 1970s Saudia Arabia was the chief supplier of oil to Canada, most recently there has been a trend for oil refineries in the country's eastern parts operating on imported oil to rapidly switch to supplies from the Mexican fields (clearly apparent from data on geographical distribution of Canadian imports). Among other energy resources Canada imports (mostly from the USA) about 15 million tons of coal a year, about two fifths of its deliveries consist of coking coal used in smelting. The imported raw materials next in importance are: bauxites (about 4,500,000 tons a year) and alumina, oil-seeds, cotton, iron ore and concentrates (about 6,000,000 tons, mostly in the form of exchange with related US firms in order to save on transportation costs). It is interesting that one of the conclusions drawn in the fundamental two-volume study of problems in Canadian-American relations in the field of raw materials is the striking (at first glance) statement that "Canada is even more dependent, proportionally, on the United States for its resources imports than is the United States on Canada" and that the situation is likely to remain the same "well into the next century".[11]

Chemical products make up a major subgroup among industrial semi-manufactured goods and three fourths of them are organic compounds. US companies hold approximately the same share (about 75 per cent) in deliveries of chemical products. In some products of organic chemistry (for example, polyester) imports provide for up to two fifths of domestic demand.

An impressive proportion of non-ferrous metal and rolled stock imports has to do with exchange between units of Canadian-based transnationals (Inco, Alcan Aluminium, Falconbridge, Cominco and Noranda Mines). Relatively large purchases (mostly in the USA and Western Europe) of steel and rolled stock are linked to specialisation of Canadian enterprises unable to produce the full range of goods, and also to the veritable invasion of the North American market by suppliers from third countries (for example, Sweden and Japan).

In recent years there has been a rise in the import of plastics and others synthetic materials reflecting the advance of modern technology. The share of foreign suppliers on Canada's domestic market of these products exceeds one fourth. Being a major producer and exporter of paper, Canada, nevertheless, imports quite a large amount of specific types of paper (printing, cigarette, paper made out of non-traditional raw material and so on).

Machinery naturally prevails in the group of finished products. The largest contribution here is made by automotive products constituting about a fourth of the country's total imports and nearly two fifths of highly processed items. There is a particularly intense inflow into Canada of parts, components and accessories used in assembly of new vehicles, and finished engines. These deliveries almost completely belong to the Big Three parent American monopolies and about two dozen specialised companies producing certain items in large series. This extensive reciprocal trade is carried on tariff-free thanks to the Auto-Pact. Competitors from third countries take almost no part in supplying intermediary products, but they have a major share in delivering finished motor vehicles, primarily cars, to Canada.

Machinery products—various plant, drilling and excavating equipment, cranes and transportation equipment, metal-cutting machine tools and other metal processing equipment, agricultural machines and tractors, textile industry equipment, and others—make up the second most important group among finished products.

The "import quota" on the Canadian market of machinery products exceeds three fourths, and in equipment used in the mining and petroleum industries goes as high as four fifths (see Table 10). Companies from the USA, West Germany and the Scandinavian countries are the main suppliers on that market. It has been estimated that in the overall cost of large-scale resources projects on an average only about 60 per cent consist of domestic expenditures not having to do with import of equipment and materials.[1 2] No doubt the megaprojects of this kind intended for the nearest years will open new opportunities for sale of equipment produced in the country. But there are no guarantees that the Canadian share would be higher than in the past. After all the foreign-owned companies operating in Canada are used to making the prevailing part of purchases through intracompany channels and will continue to play an active part in the projects.

It was noted above that the production facilities of a senior Canadian-based transnational, Massey-Ferguson, are dispersed on a world scale. That is why the value of the annual import of agricultural machinery, tractors and tractor engines is so high.

On the whole the sectors of transportation equipment satisfy less than a third of the demand of the domestic market, and a largely typical situation is observed in the aircraft industry. Exporting a lion's share of its output the sector, however, can hardly satisfy domestic demand. Suffice it to say that until recently no helicopters were produced in Canada, while they were widely used in the national economy and to equip the armed forces. As a result Canada is the world's largest importer of American aircraft products, particularly helicopters and accessories.

American technology plays an exceptional role in the country's industrial development, and the import of equipment, devices and electronics constituting that technology remains one of the chief channels for gaining access to it. World-famed Canadian industry producing equipment for communications exports almost half its output abroad which, however, does not exclude even larger-scale (both in absolute and in relative terms) import of such equipment, mostly from the USA. Canadian electronics is even to a greater degree built into the international capitalist division of labour. Thus, more than 90 per cent of the computers made in the country are exported, while up to 90 per cent of the respective demand on the domestic market is covered by import.

Noting the high competitiveness of its national electronics abroad, it must be pointed out at the same time that Canada had a larger deficit in this industry's trade than in any other product group having to do with machinery. This is apparently regarded as natural for an "average" industrial power like Canada. In any case, import of advanced technology still not produced by national industry in its direct material form (as opposed to purchasing patents and licences) has been forecast on an even larger scale for the nearest decades. For example, due to the narrow domestic market the country does not expect to produce its own robots of the second and third generation, relying on the possibility of the expanding choice of such technology made in Japan and the USA[13]. The same situation—export of a considerable part of the output and an equally large-scale and rapidly growing import—is typical of the office equipment sphere where, incidentally, Canada itself is known for its pioneering achievements in some fields.

It may apparently be regarded as a rule that the narrower the sphere where some kind of equipment, tools and device are used the greater the reliance of smaller and average countries on satisfying domestic demand by purchases abroad. A subsector of Canadian industry such as output of medical equipment is typical in this respect. It is simply insufficiently developed, since the conditions were absent: the international capitalist market is divided between foreign companies with an established reputation, while on the domestic market where American suppliers have long prevailed there is distrust of small local firms. In the words of the head of a national sales company, buying Canadian medical equipment is like hiring an invalid: everyone knows it's a good deed, but it would be better for someone else to do it.[14]

It is obvious on the whole that the structure of Canada's imports from the USA differs considerably from its export to that country. Finished industrial goods make up a stable two thirds and more in Canadian import, with equipment alone constituting half of all the American deliveries. These deliveries, in turn, are roughly divided at a ratio of two to one into automotive industry products and all the other kinds of machinery and equipment (the largest product group here is industrial machinery, making up about 10 per cent of Canadian imports from the USA). Chemical goods are the chief category (5-7 per cent) among industrial semimanufactured goods which make up 18 to 20 per cent of all deliveries. Purchases of raw materials in the USA (up to 10 per cent of the import) are divided equally between food (vegetables, fruit and nuts) and unprocessed industrial raw materials and fuel (coal, etc.).

In some instances the figures quoted in this section may be slightly misleading. Thus, the share of equipment in Canadian export to the USA may seem very modest, particularly if we disregard the output of the automotive industry which enjoys liberal trade status. At the same time it is undoubtable that the United States is "by far the best market for Canadian manufactured goods (automotive products—*A. B.*)"[15] both in absolute sales (about 85 per cent of total relevant export) and in relative terms. It is possible to speak not only of much greater successes by Canadian equipment producers on the American market as compared with overseas producers but also of the very impressive positions (both in relative and absolute terms) they have gained on that exacting and highly monopolised market.

Apparently the chief reason for this is not the high competitiveness of Canadian products in itself but rather the close relations in terms of capital between machinery firms operating to both sides of the border. The exchange of output on the basis of specialisation and cooperation (often intracompany in nature of relations) constitutes a prevailing and growing part of the relevant bilateral trade. It is revealing that the preference coefficients in product component trade calculated by Y. V. Shishkov for groups of countries coincide almost exactly for the EEC Six and the USA-Canada pair.[16]

The interlocking and mutual dependence of the two countries' economies have increased significantly over the last decades. This is indicated both by the dynamics of macro-economic indicators and by structural analysis carried out on the sectoral plane. While Canada's overall import quota (as a proportion of the GDP) rose from 14.3 per cent in 1965 to about 27 per cent in 1984, the ratio of the value of deliveries from the USA to the Canadian GDP reached 19 per cent, and as compared with the gross output of sectors in producing goods, more than 50 per cent. It would seem that the extraordinary high (on the domestic market scale) import quota has to do with the extremely strong dependence of the national economy on import of machines and equipment to satisfy investment demand.

Another thing is even more significant: by the early 1980s the relevant indicators for the USA went up to the Canadian level (in relative terms, of course, with due account for the approximately ten-fold gap in the two countries' macro-economic indicators). A more or less "normal" ratio was established between these indicators (19 per cent for Canada, 1.7 per cent for the USA; 50 per cent for Canada, and 5.2 per cent for the USA). Yet in 1965 the picture had been significantly different. So it may be claimed that in the last few decades the importance of foreign (Canadian)

Table 15

Ratio Between the Value of Canadian-American Trade and Domestic Scale of the Economy (per cent)

Year	Ratio of import to GDP		Ratio of import to value of production of goods		Ratio of bilateral import of intermediate goods to value of production of goods	
	Canadian import from the USA	American import from Canada	Canadian import from the USA	American import from Canada	Canada	USA
1965	10.0	0.7	31	2.0	18	1.6
1970	11.4	1.1	38	3.4	21	2.2
1975	14.1	1.4	49	4.6	25	3.2
1977	13.9	1.6	48	4.9	26	3.4
1980	17.5	1.6	50	5.1	27	3.7
1984	19.3	1.7	52	5.2	29	3.7

Calculated according to: Peter Morici assisted by Laura L. Megna, *Canada-United States Trade and Economic Interdependence*, C. D. Howe Research Institute, Montreal, 1980, p. 33; *Canadian Statistical Review*, Statistics Canada, March 1981, March 1984; U. S. Bureau of the Census, *Statistical Abstract of the United States* , Washington, D. C. 1981, 1984; *Highlights of U. S. Exports and Imports Trade, Dec. 1984*, U. S. Government Printing Office, Washington, D. C.,1985.

sources of supply has increased dramatically for the American market. If we were to compare the value of Canadian imports from the USA not with the GDP and not with production of goods but with the output of industrial sectors, we would obtain more than 70 per cent, an extremely high level indicating that the two countries' industrial structures have increasingly interpenetrated, becoming more mutually dependent within the regional economic complex arising under the leadership of US finance capital.

Finally, Table 15 presents data on the relative scale of trade between the two countries in the field of "intermediate goods" consisting of food and industrial raw materials, semi-processed goods and also certain kinds of finished products intended for further production use (parts and assemblies, all sorts of engines, bearings, electronic parts and so on). The clearly apparent tendency for the ratio between import from the USA of intermediate goods and the overall value of output of goods to rise additionally supports the conclusion that integration of the two countries' economic structures is progressing and points to the special role of import trade for the normal functioning of the Canadian industrial system. Yet the growth of the relevant indicator for the USA was even more impressive in these years. The "mirror" quality of the indicators mentioned above was achieved approximately in 1970 (21 per cent for Canada and 2.2 per cent for the USA), and then the American indicator ran far ahead reflecting the abrupt rise in the role of the Canadian resources base in the period following the energy crisis in 1973, on the one hand, and the further extension of the intrasectoral division of labour in machinery industries, on the other.

A study published in Canada describing the scale of Canadian-American intermediate product trade presents what the authors call the import-penetration ratio calculated as imports divided by domestic shipments, plus imports, less exports.[17] Let us consider these ratios first for Canada, and in two variants—indicating the general dependence on import and separately for deliveries from the USA (per cent, the ratio for import from the USA in brackets): iron ore—20.3 (18.8), coal—90.5 (89.7), crude oil and natural gas—49.5 (0.2), non-metallic minerals—25.2 (21.1), leather industries—49.3 (32.3), textiles—26.8 (14.7), pulp-and-paper industries—19.7 (18.8), non-ferrous metals—50.3 (31.9), parts for motor vehicles—97.3 (93.6), and aircraft and parts—62.4 (55.3), machinery—57.4 (44.7) and chemical products—24.0 (18.2).

These are impressive figures, and if one does not forget that all the data cover exclusively intermediate goods, and that machinery output, although it is described as end products (only 12.7 per cent of the import from the USA of these products is attributed to intermediate goods), is virtually all intended for production consumption, the unique degree of Canadian industry's dependence on foreign, mostly American, deliveries becomes clear. Of the 23 different kinds of product considered by Morici in Canadian import from the USA, 11 have a ratio exceeding 17 per cent—the boundary line separating, in his view (and we tend to agree with him on this point), the, so to say, usual (even though high) degree of dependence on external sources of supply and dependence of an integrational nature based on stable production links between the two countries' industrial companies. The specific character of the dependence is clearly seen on the example of the exchange of automotive products: although Canada sells quite a few automobile parts to the USA under the Auto-Pact, the import-penetration ratio of its assembly enterprises exceeds 90 per cent. In only one instance, regarding crude oil and natural gas, is the country's significant import dependence not related to deliveries directly from the USA.

If we compile a similar list for the USA, the following picture emerges (per cent, the ratio calculated separately for import from Canada in brackets): iron ore—33.6 (21.6), non-ferrous and rare metal ores—27.4 (11.0), crude petroleum and natural gas—41.1 (6.2), wood—11.5 (5.8), pulp and paper—9.0 (8.3), aluminium—7.3 (5.4), copper—10.3 (2.5), other non-ferrous and rare metals (including uranium)—35.9 (19.2), parts for motor vehicles—12.5 (9.2), abrasives—7.4 (5.3).

It turns out that the USA is subject to considerable import dependence in a rather broad range of products (10 of the 26 groups of products considered by Peter Morici) among which products of the mining and primary processing sectors prevail in absolute terms. In all the instances listed above (except, perhaps, for copper) the role of Canadian deliveries exceeds the critical 1.8-2 per cent mark several times over. The latter mark was calculated as the overall share of import from Canada in the American GDP and enables us to separate "normal" import dependence of a commercial nature from stable links at the point of production based on long-term specialisation and cooperation contracts, including intracompany exchange. And it is not surprising that the secondary manufacturing industry is represented in the list by only one group of products reflecting the current division of labour in the North American automotive industry.

Quite interesting results may be obtained by an analysis of the export-orientation ratios calculated by Morici (export to domestic shipments). Here are the ratios for Canada in 11 product groups in which they are higher than the country's average (25 per cent) export quota (per cent, ratio calculated separately for export to the USA in brackets): iron ore—74.2 (48.6), non-ferrous metal ores—37.9 (9.5), coal—90.5 (0.1), crude oil and natural gas—53.9 (53.9), non-metallic minerals—59.4 (17.3), lumber—39.1 (29.0), pulp-and-paper—75.3 (48.7), non-ferrous metals—81.5 (52.8), parts for motor vehicles—95.3 (90.0), aircraft and parts—62.6 (38.3), machinery—31.5 (20.8).

It is easy to notice that only in two instances (non-ferrous metal ores and coal delivered mostly to the countries of Western Europe and Japan) was the ratio calculated for the USA lower than 17 per cent—the average export quota for Canadian shipments to the American market in the second half of the 1970s. Practically all the above listed product groups consist of output intended for production consumption. It would seem that there is reason to believe that the sectors producing the given output are clearly export-oriented and depend heavily on the possibility of sales on the American market. Their relations with American partners evidently have a long-term production and technological basis in most cases. It is also obvious that a considerable part of Canadian-American trade, particularly deliveries of intermediate products, is carried on as intracompany exchange between subsidiaries of American transnationals operating in Canada.

Among others, American industrial sectors marked by higher concentration of export on the Canadian market include iron ore mining (ratio calculated to deliveries for Canada—3.5), non-ferrous metal ores (3.1) and coal (3.3), aluminium manufacturing (2.3) and other non-ferrous and rare metals (2.6) and also manufacture of parts and accessories for motor vehicles (10.2), machinery (3.0), manufacture of plastics and synthetic fibres (2.9). It is a rather motley picture but quite clear-cut, confirming the conclusion concerning the qualitatively high, integrational stage in the development of Canadian-American trade.

Indeed, stable regional links reflected in the flow of commodities emerged a long time ago within the listed sectors. Thus, non-ferrous metal monopolies have traditionally exchanged the output of their enterprises on both sides of the border to secure a rational structure, and generally high efficiency, for their production complexes. Massive deliveries of iron ore and coal reflect, one may say, the territorial aspect in the division of labour in the region having to do with the desire to optimise the supply of raw materials and fuel for the steel industry and power engineering facilities.

It is also easy to explain the large-scale trade in motor vehicles and parts. Frequently, this is not, strictly speaking, trade at all, but reciprocal deliveries under cooperation relations between enterprises belonging to the American automotive giants. As to machinery and modern chemistry, Canada's high import dependence on purchases abroad of relevant products is well known. In our case it is reflected in this area as if from the other side, in data from American export statistics. It transpires that the dependence is bilateral here: companies in some sectors of American industry are extensively and regularly interested in the Canadian market the narrowness of which has been written about so frequently.

On the basis of his calculations Morici singles out the sectors with a high share of intermediate products marked by relative advantages enjoyed by the producers of either country. Among sectors where Canadian companies obviously prevail he indicates lumber output, the petroleum and natural gas industry, iron ore mining, the pulp-and-paper industry and metal ores mining. It is interesting that ferrous and non-ferrous metal smelting is not included among these (the former unjustly, in our view).

In the list of American sectors marked by relative advantages in trade with Canada Morici includes the leather industry, basic chemistry, output of synthetic rubber, plastic and synthetic fibres, aircraft and parts, and also, naturally, machinery. As to the automotive industry, in the opinion of the American analyst neither side enjoys any advantages over the other. However, it is hardly reasonable to consider the sector as a homogeneous whole.

Regardless of whether they are based on division of labour "in particular" or "in singular", specialisation in products or components, the growing commodity flows objectively reflect something general, namely growing interdependence of the economies of the USA and Canada, the increasing interlocking and mutual penetration of their reproductive processes, in other words, everything implied in the concept of international economic integration in its capitalist form.

In his study Y. V. Shishkov indicates, as a sign of a country's participation in integration, a foreign trade quota of from 25 to 30 per cent and a share of trade with its chosen partners at a level of 50-60 per cent of its foreign trade turnover. For Canada the export quota is 27 per cent, and the proportion of deliveries to the American market — about 70 per cent. And although the figures are much lower for the USA (10 and 20 per cent respectively), there is no doubt that in their reciprocal trade relations these countries have long since passed the quantitave and the qualitative marks separating "integration of national commodity markets from pre-integration forms of their international socialisation".[18] However, this is truly integration of unequals. As such, it is marked by differing forces of mutual attraction between its participants and leads to an enhanced degree of one side's dependence within the regional integration system.

The very fact of being linked to the enormous American market with its established structure of supply and demand, its laws of movement largely influencing the Canadian economy through trade channels, involves a high cost for the weaker integration partner. It is absolutely obvious, for example, that Canada's trade balance is shaped under the decisive impact of the dynamics and structure of its commodity turnover with the USA.

A cursory glance at Canada's trade balance enables us to conclude that this is a country to which troubles with foreign payments are unknown. The conclusion could be accepted if the matter were limited to the balance of payments and receipts from commodity trade. But export and import of commodities is only half the story. The second half, much worse for Canada, tells about the transfer of interest and dividends abroad in billions of dollars—a natural outcome of accumulated colossal debt, the chronic and growing deficit in international exchange of services, in short, even the most impressive trade surplus being insufficient to make ends meet in other, non-commodity items of the current balance of payments. However, the thread runs further on: the unbalanced current payments make it necessary to attract new foreign capital to the country—both long-term and short-term—and each of the two sources of increase in foreign debt involves serious consequences for the country. While they have different influences on the economy, all the consequences add up to the same result, and it is unfortunate indeed: the country's international positions are deteriorating, its own financial resources declining instead of being channeled towards well balanced, independent development of the national economy.

This may all be true, but if one were to remain in the field of commodity trade the picture here is on the whole quite favourable for Canada. In more than 20 years only once, in 1975, was there a deficit in the country's balance of foreign trade. Accordingly, the trade operations balance (one of the major items in the balance of payments) has had a surplus and quite a large one, particularly in the 1980s. Just in case, it is to be specified that although the order of magnitude of the figures may be the same, these are still different indicators both in method of calculation (for example, in the balance of payments the value of both export and import is cited in fob prices, i.e. prices excluding associated services listed under other headings) and in essence, since the commodity shipments and the payments in trade operations during the same year never coincide completely.

Let us consider the data in Table 16 concerning the results of trade in basic commodity groups. Quite important observations may be made on their basis.

First of all, an outstanding fact is the fundamental difference between the balance of value of shipments of industrial raw materials, semi-manufactured goods and food products, on the one hand, and finished industrial goods, on the other. The former three groups together provide such a large excess of exports over imports that it is sufficient not only to neutralise the billions of dollars of

Table 16

Foreign Trade Balance by Basic Commodity Groups (millions of dollars)

Year	Overall balance	Including				Of these:	
		food and beverages	crude materials, inedible	fabricated materials, inedible	end products, inedible	auto-motive products	machinery products
1970	2,868	753	1,896	2,981	–3,051	248	–1,296
1975	–1,913	1,415	2,863	3,896	–10,239	–1,788	–3,021
1978	3,002	1,521	2,940	10,408	–12,434	–864	–3,650
1980	6,959	3,444	3,491	16,632	–17,767	–2,660	–5,782
1982	16,674	5,283	6,092	16,070	–12,728	1,395	–4,209
1983	15,377	5,412	7,192	16,005	–14,925	2,042	–3,887
1984	13,789	4,487	9,357	18,781	–18,121	2,944	–3,773

Calculated according to: *Canadian Statistical Review,* March 1971, March 1976, March 1979, March 1981, March 1984; *Summary of External Trade,* Ottawa, December 1984.

deficit in finished product trade but also to create a significant reserve to balance the country's current operations on the whole. The individual contribution of each group to a more favourable balance of trade varies from year to year. For example, in analysing data for a long period of time the widespread conclusion about Canadian export becoming "cruder" in years of crisis is confirmed: the export surplus of deliveries of unprocessed food and industrial raw materials grows in relative terms, while the results of processed (semi-manufactured) product trade worsen somewhat. Attention may be drawn to the fact that from the early 1980s the trade surplus in industrial semi-manufactured goods greatly exceeds the also largely increased balance of food and raw materials trade (that figure more than doubled, in particular, due to the directly opposite dynamics of natural fuel export and import).

In any case it is here that the country's chief strength in foreign trade lies, while Canadians cannot even dream of a favourable balance in finished goods. It is all a matter of the structure of commodity flow. The following statement still sounds like an axiom: "Most of Canada's exports are resources intensive, while imports are of manufactured goods".[19] Hence the tendency for a permanent and large-scale surplus in raw materials and semi-manufactured goods trade and a chronic, also enormous deficit in exchange of finished industrial goods. Incidentally, this is also the reason for the unstable terms of trade—a very important factor for every actively trading country relating the dynamics of export and import prices.

Turning now to the deficit in finished goods trade, it is interesting to estimate the contribution to it by the two decisive groups of machinery products. In Canada it is considered to be in good taste to denounce the Auto-Pact (there are, indeed, quite a few reasons for criticising it), but an insufficiently grounded, in our view, opinion exists there that the trade with the USA in cars and particularly parts and accessories is the chief source of the overall deficit in the exchange of finished goods and, therefore, the weakest item in Canadian foreign trade. Figures, however, point in a different direction. Of course, there are quite a few reserves to improve the results of exchange of automotive products with the USA, and it has not yet proved possible to untap some of them due to the terms of the Auto-Pact which are no longer in line with the present situation. But as a whole, the automotive industry, including the rapidly growing enterprises producing parts and accessories, is among the most efficient and competitive sectors of Canadian industry. The most complicated and delicate period of its adjustment to a market that is not protected by tariffs but is at the same time the largest in the world is long behind. In the year of crisis, 1982, Canadian export of finished cars increased almost by a third (due to their being more in line with the demand structure on the US market), and at the same time their import also declined in absolute terms, while the flow of parts and accessories going in both directions grew by a similar though small amount. As a result for the first time in many years the balance in automotive product trade was in favour of Canada, while in the subsequent two years the surplus in this commodity group underwent an unparalleled increase reaching 9 billion dollars in 1984 (also as a result of shipments of finished motor vehicles, and in this case not only passenger cars). So this is hardly the weakest spot in Canada's foreign trade.

Most likely, the weakest spot is the exchange of machinery products where the import frequently exceeds export by more than 100 per cent and a deficit is observed from year to year. Or to take a wider look, the weakest spot is exchange of engineering products in general, excluding the automotive industry. Thus, in 1984 the overwhelming part of the traditionally large deficit in finished goods trade (over 18 billion dollars) was distributed among other machinery and tools (refrigerator equipment and air conditioners, electrical products, measuring devices, scientific apparatus and so on—total deficit 7,200 million dollars), machinery (4,900 million), personal consumption items and household appliances (3,400 million), communications equipment (2,100 million) and aircraft industries (1,900 million dollars).

The state of the trade balance has been marked by particularly serious changes in recent years in relations with individual countries and regions (see Tabe 17). Even at the end of the 1970s there was an extremely unstable surplus in trade with the country's chief partner, the USA, and the decisive contribution of commodity exchange with that country to the major deficit in finished goods. As a result

Table 17

Commodity Trade Balance by Country and Region (millions of dollars)

Year	USA	Western European countries	Including United Kingdom	Japan	Middle East	Latin America
1970	1,000	1,168	747	231	22	70
1975	–1,907	619	567	918	–263	–255
1978	1,936	30	397	787	85	132
1980	–359	4,264	1,268	1,595	–1,307	958
1982	9,819	1,745	823	1,063	909	–984
1983	12,230	308	699	353	1,369	–878
1984	14,346	–2,096	126	–84	1,212	–909

Calculated according to: *Canadian Statistical Review*, March 1971, March 1976, March 1979, March 1984; *Summary of External Trade*, December 1984.

Canada shaped its overall trade surplus mostly on the markets of other industrially developed countries, Western European nations and Japan above all. In recent years, however, the basis for a major trade surplus was on the whole formed on the American market. As to Western Europe and Japan, one of the most important consequences of the crisis in their economies was the decline in the import of industrial raw materials and semi-manufactured goods, which, together with the truly unrestrained expansion by Japanese exporters of finished goods, had a clearly negative effect on the result of Canada's trade with these countries. It would seem that at the present stage Canada's foreign trade to a decisive extent depends on conditions on the American market, which also supports the conclusion that interstate economic complex of the integrational type has arisen in the region. It is not accidental that, considering the results of foreign trade in 1982, perhaps the most difficult year in postwar decades, Canada's ruling circles and business proposed to extend the free trade status to new commodity groups (sectors) in addition to those already involved in bilateral trade liberalisation.

Some Factors Responsible for Productivity and International Competitiveness of Manufacturing Industry

Canadian analysts link the abrupt weakening of Canadian exporters' positions on overseas markets from the early 1980s directly to the lower competitiveness of national manufacturers as compared with companies in Western European countries, Japan, and the so-called new industrial states. This has provoked considerable concern in the country. Yet it must be pointed out right away that for Canada, with its historically rooted export specialisation and the tremendous role of its trade relations with the USA as a factor influencing the forming and satisfying of domestic demand, the problem of productivity, efficiency and competitiveness of industrial production is largely not simply an international issue but a Canadian-American problem.

In the most general form competitiveness of Canadian industrial goods on the internal and the external markets depends on, first, the tariffs and customs duties in trade between individual countries and the associated degree of protection for national production; second, the relationship between efficiency indicators of the industry itself (productivity of labour and wages in different sectors, level and dynamics of capital intensity, outlays on materials and energy, and other structural patterns), third, currency exchange rates of the countries participating in trade; fourth, state measures to stimulate export taken in partner countries and opportunities to effectively neutralise them by setting up a system for supporting national producers or by non-tariff obstacles on the customs border.

Since the scope of the present study is not large enough to pay special attention to the terms of Canadian producers' competition with overseas suppliers, we would only like to note an obvious factor contributing to the growing scale of their invasion of the Canadian market and a decline in the competitiveness of virtually all Canadian products on the markets of most capitalist and developing countries. The factor in question is the exchange rate of the Canadian dollar which, from the standpoint of trade interests, is paradoxical indeed. On the one hand, since the early 1980s it is rated significantly lower than the US dollar, going down to 80 (autumn 1982), 75 (mid-1984), or even 70

US cents (end of 1985). On the other hand, together with the US dollar, the Candian exchange rate is regarded as considerably overstated in relation to most other currencies, which largely has to do with the Reagan policy of high interest rates. As a result stepped-up deterioration of Canadian and American producers' competitive positions has occurred on the markets of third countries, while on the intra-regional market Canadian suppliers enjoy a marked temporary advantage as compared with enterprises situated in the USA, which has an impact on the overall results of the two countries' reciprocal trade. On the whole, in this respect, one should take into account the remark made by the prominent analyst of problems of international competition Peter Morici, who wrote that "The integration of US and Canadian capital markets has traditionally limited Canada's monetary policy options, with consequences for the competitive position of its industry".[20]

As to the other factors of competitiveness linked to productivity in the Canadian and American segments of individual subdivisions and sectors of the integrated North American economy, dynamics of wages, capital-per-employee ratio at manufacturing enterprises in the USA, Canada, etc., in the last decade these factors have been the subject of numerous studies by North American authors giving rise to a rather extensive specialist literature.

Canadian business circles first displayed a marked concern for the fall in the competitiveness of national manufacturing output after the country's trade balance had a deficit in 1975—the first deficit in a decade (this did not happen again, however). Quite a lot of research was done to compare qualitative (structural) indicators of production in individual sectors and relate them to US data with the aim of revealing the tendency of relative productivity as the basis of Canadian companies' competitiveness on the domestic and the American markets. Let us consider the results of what, in our view, are the most fundamental comparisons of this sort and attempt to offer a generalised evaluation of the contemporary state of production efficiency in Canada's manufacturing as related to the USA largely explaining the phenomenon of the country's growing dependence on import of American finished products, machinery above all.[21]

An extensive report was issued in 1977 dealing with the evolution of two important indicators having to do with production efficiency compared to the USA: dynamics of labour costs in 83 sectors of the Canadian economy over 10 years (1975 as compared to 1966) and changes in relative productivity for 33 manufacturing industries over 8 years (1974 as compared to 1967).[22]

Comparing the dynamics of wages in 64 sub-industries and 19 sectors of the services (ranging from mining to retail trade enterprises, restaurants and laundries), the authors of the report conclude that there was a steady and consistent converging of Canadian and US indicators in all 83 cases(!). As of mid-1975 hourly wage rates were 95-99 per cent of the American level (with due account for currency exchange rates) in 19 industrial sectors, while in 53 sectors they were higher. In 64 industrial sectors on an average the Canada/USA ratio was 1.02 and in the services 1.12. At the same time, in 1966, among the sectors studied there was not one where wages were higher in Canada than in the USA and the average ratio was 0.75 for industry and 0.82 for the services. Although, due to higher prices for durables in Canada (25 to 40 per cent more than in the USA) and higher income tax rates (1.5 to 2 times more than the American ones) workers real wages in Canada remained considerably lower than those in the USA, this does not change anything from the viewpoint of labour costs as one of the factors influencing production efficiency and competitiveness. The overall conclusion is that since the mid-1970s Canada could no longer be regarded as a country with relatively low expenditures on wages, even when compared to the USA.

This is not a very favourable conclusion if it is taken into consideration that the stepped up rise in wages was not accompanied in Canada by an adequate growth in relative productivity. The latter calculated as a ratio between value added per man-hour worked in a sector of manufacturing industry in Canada and a similar indicator for the USA is presented in two variants: a) the numerator and the denominator recalculated in domestic Canadian prices; b) in corresponding US prices. The results obtained are quite similar and enable us to conclude that on an average, in 33 sectors relative productivity in Canada rose from 62-65 per cent of the American level to 77-82 per cent.[23] The convergence is more clear-cut in the group of industries producing durables—from 70-73 per cent in 1967 to 94-98 per cent in 1974. The lag is still quite great in sectors producing non-durables: they had achieved only 68-70 per cent of productivity in the USA (it was 53 per cent in 1967 in Canadian prices and 61 per cent in American prices). The traditionally export-oriented sectors were among the sectors that had exceeded productivity in the USA, including sawmills (over 140 per cent), plywood, steel and rolled stock manufacture. As was to be expected Canadian automotive industry productivity was about equal to American. The lag was not great in non-ferrous metal smelting (apparently more than 80 per cent of the US level) and at pulp-and-paper mills (the gap had grown somewhat larger here).[24] At the same time, for example, in oil refining productivity was 70 per cent in Canadian prices and only 55 per cent in American prices (yet the figure had been much lower in 1967, 37 and 25 per cent respectively). Relative productivity was approximately at the same level in some machinery sectors (aircraft, communications equipment, and household electrical appliances).

It is important to point out that the gradual convergence of productivity in the two countries' manufacturing occurred in a context of growing capital intensity of output and much higher capital-per-employee ratio in Canada as compared with the USA. The manufactures with the lowest relative capital intensity of output considered in the report include smelting and rolled stock manufacture, and also transportation equipment industries where this indicator even declined following the Auto-Pact and reconstruction of the automotive industry. At the same time in the machinery and consumer goods industries (where low-specialisation enterprises of sub-optimal size still prevail) capital-per-employee ratios and capital intensity were at an undesirably high level, further increasing their lag behind producers in the USA. The authors estimated the ratio of machine and equipment cost per employee in manufacturing in Canada and in the USA to be 1.4 in 1967 and 1.6 in 1974. The highest sectoral ratios were in textiles (1.9 in 1974), oil refining (1.8), sawmill and furniture (1.76) and pulp-and-paper (1.7) industries, and the lowest in smelting (1.36 in 1974; but even here the capital-per-employee ratio had grown considerably: in 1967 it had been 1.08).

These figures may be supplemented by computations from another equally valuable study, data from which were repeatedly used in this book.[25] According to B. W. Wilkinson's estimate, net capital stock per worker in Canada's oil refining industry reached nearly 185,000 dollars in 1974, 51,000 dollars in the pulp-and-paper industry, 46,000 dollars in smelting, 35,500 dollars in processing of non-metallic minerals (excluding fuel), 23,000 dollars in the food industry, and 19,000 dollars in textiles. The ratio of capital stock to shipments was also higher in these sectors: 83 cents per dollar of shipments in the pulp-and-paper industry, 81 cents in processing of non-metallic minerals, 75 cents in smelting, 60 in oil refining, and 55 cents in textiles. The author believes that these data point to the considerably less effective use of capital in Canada as compared to the USA.

Comparing dynamics of productivity and wages over a long period Wilkinson obtained figures of average annual changes in labour costs per unit of output in the two countries' manufacturing.[26] His computations enable us to conclude that during nearly two decades the dynamics of per-unit labour costs were in Canada's favour, while from the early 1970s its positions began to weaken markedly.

According to other data confirming this conclusion, the overall increase in labour costs per unit of output in Canada's manufacturing for 1971-1976 was 52.4 per cent (calculated in Canadian dollars) or 61.4 per cent (in US dollars), while the same American figure rose only by 35.5 per cent.[27]

An important factor contributing unfavourably to the dynamics of wages per unit of output was a temporary rise in the exchange rate of the Canadian dollar in relation to the American dollar in the 1970s. Being freely floated, the Canadian dollar was rated higher than the American dollar for almost six years, which led to "exaggeration" of the country's cost data in international comparisons. The trend was broken at the end of 1976 when the exchange rate of the Canadian dollar fell below that of the US dollar.

From the viewpoint of the impact on comparative efficiency data, the fact that the exchange rate of the Canadian dollar remained at a low level and further declined in 1982-1985 led to the growth in labour costs per unit of output in the Canadian manufacturing industry being among the lowest in the group of developed capitalist countries in two and a half decades. This is undoubtedly a favourable symptom for the country, although concern is provoked by the fact that the dynamics of labour costs per unit of output were secured not as a result of in-depth structural transformations but rather under the influence of a variable factor such as the freely floating exchange rate of the national currency. It is also to be noted that even in a context of the Canadian dollar becoming much cheaper, the average annual increase of labour costs per unit of output forecast for the first half of the current decade was over 9 per cent.[28]

The forecast of the Finance Department for the first half of the 1980s contained four estimates of the average productivity growth in the Canadian economy for the period 1980-1985: 0.2 per cent (the Department's own forecast), 0.1 per cent (forecast of the Economic Council of Canada), 0.7 and 1.2 per cent respectively.[29] These figures were in line with data published slightly later in a forecast according to which the annual average growth rate (with due account for changes in capital intensity of production) was to be only 0.5 per cent in the first half of the 1980s. In view of the fact that in 1955-1974 productivity growth in the country was 2 per cent a year, the above figures indicate that the structural weakness of Canadian manufacturing may become even more obvious.

The gradual erosion of advantages in productivity growth rates compared with the USA gained in the second half of the 1960s and early 1970s was also noted in a review of the C.D. Howe Institute. Having compared three postwar industrial cycles[30] in Canada and the USA, the institute's experts pinpointed the gradual convergence of productivity growth rates in the two countries against a background of a mutual slowing down. The loss of Canada's advantage in rates is particularly impressive if multi-factor productivity is taken, particularly growth of expenditures on capital stock. In American industry as a whole the increase in the capital-per-employee ratio (capital stock per worker in constant prices) was about 2 per cent in 1970-1977 and in Canada (1974-1977) 2.9 per cent.[31] During most of the long period considered (1957-1977), productivity growth in manufacturing was slightly lower than in the mining and petroleum and natural gas industries, except for the last cycle (1974-1977) marked by stagnation in mining of most minerals with considerable growth in expenditures on exploring and opening up deposits.

At the end of the 1970s, having compared the influence of export price dynamics on the manufacturing output of Canada and its chief rivals, Canadian economist E. A. Carmichael had still concluded that the country's price competitiveness had grown by 13 per cent as compared with the USA and by 12 per cent compared to the group of 15 developed capitalist states during 1970-1977. Even then, however, he indicated that the labour costs per unit of output had an unfavourable dynamic as compared with the American data, deducing from this a relative decline in the country's cost competitiveness.[32] The unfavourable tendency remarked by Carmichael further developed in the late 1970s and early 1980s. According to one of the latest economic surveys of the OECD, unit labour costs remain steadily higher for Canada than the USA.[33]

A worsening of the situation with unit labour costs leading in practice to a fall in competitiveness of Canadian production in the final count is merely an indirect sign of the same underlying defect in the country's industrial development in the 1970s-1980s—low productivity growth rates in manufacturing. Thus, if in 1951-1973 average unit labour cost growth in Canada was 4.3 per cent, which was higher than in the USA (2.8 per cent) or in the United Kingdom (3.4 per cent), in 1974-1981 it was only 1.1 per cent, two thirds of the US figure and half of the corresponding British indicator. And that in a context when capital intensity (calculated as a ratio of capital stock to value added) was 50 per cent higher in Canada than in the USA.[34] In 1983 data were published concerning the entire national economy according to which productivity growth (calculated as output per man-hour) was virtually absent since 1978, while the index of average unit labour cost increased precisely by 50 per cent in five years. According to other sources, total factory productivity growth in the Canadian economy averaged only 1.16 per cent in 1967-1980.[35] In this connection, it would be well to recall the words of a labour union leader dating back to 1977: competitiveness and productivity are interchangeable concepts. In the same speech, however, he warned against drawing too far-reaching conclusions on the basis of highly aggregated macro-economic indicators which heap together both industrial leaders and those on the verge of bankruptcy.

Experts at the Geneva-based non-profit research organisation, the European Management Forum, have recently started to rate national competitiveness of 22 countries on the basis of more than two hundred criteria in 10 groups. According to a complicated point count Canada was ranked 11th in 1983 in the contemporary capitalist hierarchy. Three years before, using a slightly different system of criteria in terms of quality and quantity, the same organisation allotted Canada fifth place, and in 1982 sixth place.[36] In any case, a step back seemed to be made.

At the beginning of 1984 in a special survey for the *Financial Post* prominent economist Robert English wrote that "After almost 30 years of strong productivity growth, Canada's record since the mid-1970s has been abysmal".[37] The same survey contained data according to which output per man-hour in Canadian manufacturing was 25 per cent lower than in American manufacturing—the largest gap since 1973. The same indicator for Japanese industy turned out to be only slightly lower than the Canadian level, while in 1965, for example, it was not more than two fifths of the Canadian figure.

At the same time labour costs per unit of output (calculated in US dollars) in Canada had grown over 1973-1982 to a lesser degree than in the UK, France, West Germany, Norway, Sweden or the USA. This, for the most part, was due to the fall in the exchange rate of the Canadian dollar in relation to the American dollar (the average annual growth rate in US dollars was 7 per cent, as against 10 per cent in Canadian dollars and 77 per cent for the USA). Yet these data do not fit very well with the facts presented in Carmichael's new work according to which the unit labour cost index in 1984 in manufacturing (US dollars, 1980—100) was 130 for the USA, 120 for Canada, 103 for Japan and an average of 92 for the West European countries.[38] Donald MacCharles from the University of New Brunswick is also rather sceptical of cost competitiveness. He wrote in early 1985: "Our problem is that we are high-cost producers, with unit costs of production in manufacturing twice that of Japan and 35% higher than the US".[39] Finally, the following observation by Peter Morici should be taken into consideration: in his view, an approximately parallel rise in productivity in the USA and in Canada since 1973 was accompanied by much faster growth of capital-stock-per-worker ratio in Canada as compared with the US.[40]

Another *Financial Post* analyst, Catherine Harris, in the same survey argued that if Canada sought to become competitive on the international scene, it was important for it to achieve either a higher productivity growth rate or a relatively low inflation rate, or even better, both. At the same time, in 1978-1982, Japan had a 42 per cent overall growth of productivity in manufacturing while consumer prices rose by 25 per cent, and its rivals had the following figures respectively: 29 per cent and 36 per cent for Belgium, 6 per cent and 59 per cent for the USA, and only 2 per cent and 63 per cent for Canada(!).

Of course, the way every production unit raises efficiency and productivity may be its own and specific and indeed should be. There are no universal recipies. It is obvious, however, that in many instances it is impossible to achieve serious progress without fundamental reconstruction and modernisation, without cardinal structural and organisational change at the sectoral level. Frequently, this is the only way to put into action factors capable of securing significant productivity growth.

There are quite a few such factors which have a decisive impact on the operation of specific production units in different sectors of manufacturing. They include the scale of production capacities, production runs, the range of products, and the associated degree of specialisation, the age of the equipment, up-to-date technology and organisational structure, scope of its own research and so on. In many of these, Canadian producers almost always lag behind foreign rivals, particularly the USA.[41] The technological lag of companies operating in Canada is clearly evident, if only in the aggregated criterion of the still low expenditures on research and development.

It is not possible, unfortunately, to specially consider each of these factors in the present work. Yet it would be useful to turn, for at least a short look, to certain structural patterns in Canadian manufacturing on the level and dynamics of which a lot depends in our day.

Interesting conclusions may be drawn, for example, from a comparison of manufacturing output and associated costs of capital stock, raw materials and also energy (per man-hour). An analysis of detailed data on the subject contained in a report of the Economic Council of Canada[42] warrants the conclusion that a slowing of output growth (per unit of time) in 1974-1976 to less than one third of the average for 1967-1973 was accompanied by an unproportionate increase in capital stock unit costs (a rise in capital-per-worker ratio and capital intensity of production) and relatively moderate (proportionate) increase in costs of materials and a very slight growth of energy costs (in some cases, there was even a decline in absolute terms).

However, the report's data give ground to assume that it is the dynamic of raw material and intermediate product consumption in unit of working time that serves as the most reliable yardstick for estimating a sector's success in rationalising production, securing long production runs, and in the final count, general effectiveness in using factors of production. It is notable that in the group of industries producing durables the highest results in the 1960s and 1970s were in the automotive, machinery (including, for example, the highly concentrated output of farm machines), and steel smelting (primarily in the 1967-1973 period when the principal technological restructuring and rationalisation of these industries occurred).

Canada also has favourable dynamics of energy cost per unit of output. The figure, however, varies not only from industry to industry but also reveals significant geographical differences (there is plenty of cheap hydroelectric power in the east of the country, but oil and natural gas are more expensive there; in the west hydro capacities are negligible but there are large reserves of natural fuel). On the whole fuel and energy costs per unit of output in Canada are much lower than in the USA. On the eve of the energy crisis (1972) the size of these costs measured according to Canadian fuel and energy consumption standards was (in per cent of the American level) 76 in pulp-and-paper, 80 in iron and steel, 91 in oil refining, 96 in automotive, 96 in electrical household appliances, and 99 in non-ferrous metals. Nevertheless, in 17 of the 33 manufacturing industries fuel and energy costs per unit of output were higher than in the USA. But, first of all, this concerned mostly industries catering to the domestic market and until recently protected by high tariffs. Second (and this is apparently most important), since then prices on all energy and electric power itself grew in Canada to a lesser extent than anywhere in the developed part of the capitalist world. Economic commentators and businessmen remarked that Canada has "a comparative cost advantage on the energy side and... (is) better endowed with natural resources from most countries".[43]

An analysis of the regularly published reviews of the activities of leading Canadian monopolies makes it possible to establish that high efficiency and international competitiveness of many of them are directly linked to low fuel and energy costs (let us point out, for example, companies such as Alcan, Steel Company of Canada, Inco and Aibitibi-Price Inc., leading Canadian producers of aluminium, steel, nickel and newsprint).

According to some estimates, in recent years Canadian pulp-and-paper producers have achieved truly remarkable results in reducing electrical power costs per unit of output. A government-backed campaign is being conducted in the country aimed at having a greater part of industry pass from consuming oil, black oil, and oil-based liquid fuels to cheaper natural gas, including liquefied gas. This trend is more apparent in the eastern provinces where large amounts of imported oil are still consumed. Extensive plans are linked to construction of new, more economical hydroelectric plants and also nuclear power plants.

At the same time it is hardly possible to speak of sufficiently competitive secondary manufacturing industries in Canada. If the typical thing for contemporary industry is "development of highly effective large-scale units of production with a considerable emphasis on product specialization",[44] this is not exactly the case with Canada's manufacturing. Most of the enterprises in this sector are oriented to serving local, Canadian consumers who have accepted American stereotypes and desire to have the same range of goods and services as the US market offers. Hiding behind high tariffs companies with access to American technology but few incentives or opportunities to enter the USA with their products have long since set up sub-optimal short production run enterprises with a ramified production range intended exclusively for the domestic market.[45] Such enterprises, mini-replicas of American transnational production complexes (many of which own them), are a typical phenomenon for many secondary manufacturing industries such as household appliances and common consumer goods (in the Canadian case, not so common in view of the relatively small population). Let us mention two other circumstances additionally restricting opportunities for sale and, thereby, potential company growth in manufacturing: direct bans frequently imposed by American monopolies on export of products made at their Canadian subsidiaries and a kind of local protectionism practised by the Canadian provinces to stimulate "their own" industrialists by granting them certain advantages in placing orders, which leads to unwarranted parallelism and production splintering and makes it difficult to create enterprises even remotely resembling optimal ones.

The chief single factor holding back productivity growth in Canadian manufacturing, in the view of many economists and businessmen, is "less specialization and shorter production runs" at enterprises.[46] The opinion is becoming increasingly widespread that it is possible to overcome that shortcoming, particularly characteristic of American transnationals' subsidiaries, only by stepped up export of specialised products intended for an extensive international market (as a result of a "world mandate" provided to the Canadian subsidiary for producing a specific type of the given transnational's output).

Other sources of Canadian manufacturing companies' weakness are also pointed out. Thus, in 1984, the press particularly often quoted D. Daly from York University who linked the inadequate efficiency of Canadian producers with the low standards of national management personnel training as compared with the USA, slow introduction into production of new products and production processes, and also the reluctance of Canadians to adopt advanced organisational techniques used by rival countries headed by Japan.[47] Yet the main reason for the gap in the productivity levels in the American and Canadian manufacturing industries lies, as Daly sees it, in insufficient product specialisation and short production runs.

It would seem that the way to higher productivity is open. But how can Canada go along that way if economic decision-making concerning a considerable part of the country's production of goods still remains in the hands of American businessmen weighted down by the burden of their own national problems? And the concept of productivity is not completely clear in Canadian business circles. Walter Light, chairman of Northern Telecon Ltd. exclaims pathetically: "If ever one word could save a nation, productivity is it. If only we knew what it meant."[47a]

All the above is only a very approximate and generalised account of the contemporary competitive positions occupied by Canadian exporters. In real life success depends in each specific instance on a set of criteria defining export supply and import demand. As already mentioned, a great deal depends, for example, on the exchange rate of the Canadian dollar which often determines the price competitiveness of national exporters on specific market. Finally, and this question merits attention on its own, not only private companies but whole capitalist states compete on international markets each seeking to secure the most effective financial and organisational support for their exporters. Canada is no exception in this respect.

Principal Tools for State Regulation of Foreign Trade

In a policy-making document *Canadian Trade Policy for the 1980s* published almost a year before it stepped down as a result of a shattering defeat in national elections, the Liberal government defined the basic objectives and lines of federal efforts to support national exporters. The emphasis was on further expansion of trade relations with the USA (which was to be contributed to by overall liberalisation of world trade), on stepped up industrial development of the country by extending opportunities for export of highly processed industrial goods and high-technology finished goods, and also on securing reliable and stable markets for traditional raw materials and food, in certain cases by means of international commodity trade agreements.[48]

Participation in financing progressive restructuring of sectoral production and creating credit opportunities to help purchases of expensive equipment taking long to produce and instal were proclaimed the main forms of direct support for national exporters. The first task was to be tackled through a ramified network of sectoral reconstruction programmes providing for direct financing of construction of new enterprises and modernising of existing ones, creating research laboratories and machine pools and so forth. These programmes were to be implemented in nearly all sectors of the economy, from pulp-and-paper to fisheries, and in certain areas provincial governments which had their own financial resources for development were involved. In addition to direct financing at all levels the companies included in the government programmes to stimulate export were also offered tax rebates, including faster depreciation write-offs on capital outlays for reconstruction of production facilities.

The second aim was to be achieved mostly by means of the Export Development Corporation (EDC) under the federal government. The corporation was authorised to provide foreign buyers with loans for large purchases of Canadian goods (usually for a term of more than five years). In addition, lines of credit were opened for foreign banks which in their turn would provide credit to local buyers of Canadian products on the terms adopted in the country.

In addition to directly financing purchases of Canadian products in deals involving usual commercial credit, the EDC grants insurance policies directly to Canadian exporters covering up to 90 per cent of the contract value, thus taking upon itself the risk involved in possible non-payment. It is important to stress that the EDC, in the most different forms and scope, finances export of Canadian output virtually to all the countries with which Canada maintains normal trade relations. Among other things, these measures strengthen the positions of Canadian exporters of equipment and other finished goods on the US market, too.

At the multilateral GATT talks Canada's representatives always support those advocating further liberalisation of world trade, including elimination of numerous non-tariff barriers (procedural and technical ones associated with discrimination of foreign suppliers in placing government orders and so on). One of Canada's initiatives in this field was an appeal in summer 1983 to GATT partner countries to refrain from protectionist measures for at least two years.[49] Having abandoned direct subsidies of export of its goods in principle, Canada demanded the same of its partners.

The principal tool for regulating access to Canada by foreign goods is still the customs-tariffs system. In much the same way as in the USA, the tariffs including the MFN (most favoured nation) rates are structured according to a progressive scale, and raw materials are imported duty-free or at minimal rates, and the tariffs grow with the increase in the degree of product processing.

Canada is regarded as having one of the highest tariff levels among OECD industrialised nations.[50] However, the Canadian tariff has a relatively wider range of duty-free imports. Yet the rest of the goods are subject to relatively high rates (12-13 per cent on an average). Higher rates (up to 25 per cent) operate with respect to goods which encroach on the interests of the weakest Canadian industries (clothing, shoes and furniture). The average level of tariff rates with respect to total import, including duty-free import, was estimated at 4-5 per cent in the early 1980s. By 1987, when the Tokyo Round's GATT agreements would have been completely implemented, the average tariff level for the part of import subject to duties is to be reduced to 9 per cent.

At the beginning of the 1980s the following goods were imported duty-free: most industrial raw materials and agricultural products from the tropical zone, some semi-manufactured industrial goods (a selected range); finished goods "not made in Canada"; some machinery products singled out according to final use (mostly for agriculture and the resources sectors); separately in trade with the USA, automotive products (except for tires and spare parts), military hardware, some agricultural machinery and tractors, certain models of colour TV sets and fork trucks (under special integrational-type agreements more about which below).

In view of the widely practised setting up of free trade zones the companies belonging to which enjoy customs advantages in importing intermediary products for production use, Canada created its own version of these zones by "conditionally exempting" some export-oriented finished goods-producing companies from customs duty on their equipment imports.[51] At the end of 1983 there were over 400 companies taking advantage of the zones. As a rule these were subsidiaries of American machinery monopolies which had received, under intracompany specialisation, a mandate to produce and export certain products to any country of the world.

According to GATT recommendation, Canada's customs-tariff system will be revised along several lines in the next few years. Thus, it was intended to draw up by early 1985 a more detailed list of finished goods exempt from import duty to replace the above-mentioned vague "made/not made in Canada" ruling not recognised by GATT.[52] Under the multilateral equipment programme Canada agreed to reduce the average rates for the part of machinery products import subject to tariff from 15 per cent to 9.2 per cent.

Until recently the sum import duties were levied on was established by customs agencies on the basis of a conclusion reached by special commission which compares the price of the actual deal with a "fair market price in the country of origin" as calculated by its experts (if the latter proved higher it was taken as the basis for calculating the duty). This way of determining the sum subject to duties was denounced as illegal by GATT, and as from 1985 a new procedure was to operate under which the value of each shipment of goods was determined on the basis of current prices of the world capitalist market.

Steps have been taken by GATT to unify national legislation regulating application of anti-dumping and countervailing duties. From now on, to introduce both kinds of prohibitive duties, it is necessary for a special agency to indicate the fact or the threat of serious harm or slowed down development for national industry. Formerly it had been necessary to prove harm in Canada only to assign countervailing duties intended to neutralise the consequences of export subsidies applied by foreign states. It was sufficient to establish the fact of import of goods into the country at prices lower than those existing in the exporting country to introduce the anti-dumping duty. Now in both cases a special agency has to consider the terms of each suspicious deal (a complaint against which has been lodged) and confirm the fact of dumping (subsidies) and harm to national production. The bill submitted to Parliament at the end of 1983 concerning import (its fate remains in the balance since the Conservatives came to power) provided for, among other things, suspension of investigations if the potential "culprit" agreed to raise his price or end the subsidy to avoid injury to Canadian industry.[53]

The bill also provided for innovations in the field of application of contingency protection measures. Until now, these measures, usually in the form of an additional import tax, could be imposed for up to 180 days by the Finance Minister with respect to goods whose import in his view posed a direct threat to the interests of Canadian producers. If the bill is passed, in future the additional tax (duty) may be applied to goods whose import does not infringe on the interests of the country as a whole yet threatens local producers in some area.

The widely practised imposing of quotas on import of some products or even of the output of whole industries is also regarded as contingency protection measures. Thus, in 1981, up to 90 per cent of the textiles imported to Canada from the developing countries (7 per cent of total textile import) was subject to quotas. In addition to modernising these industries with the help of a special body, the Canadian Industrial Renewal Agency, the programme adopted by the government that same year provided for application of the quotas for five years to achieve a gradual absolute drop in textile and clothing imports. Import of footwear made of textiles and synthetic materials is also restricted.

It is to be noted in this respect that Canada's non-tariff protectionism comparatively rarely takes on the form of global quotas permitted by GATT, i.e. unilateral and fixed restrictions on import into the country of some product. More frequently the same effect is sought by means of bilateral or multilateral talks leading to the quasi-legal "voluntary restrictions" of deliveries to Canada by exporting countries.[54] These two forms are closely intertwined and frequently it is difficult to distinguish them. In the last few decades "voluntary" quotas were particularly widely used to restrict access to the Canadian market of motor vehicles, motorcycles, TV sets and other consumer durables from Japan and a number of developing countries with low wages.

At the provincial level, lacking such trade-political tools as tariffs and quotas, governments are adopting their own measures to influence import. There is a particularly widespread practice of placing orders financed from provincial and municipal budgets among their own companies, and in this case, "their own" are not simply national companies but, in a more narrow sense, producers in Quebec, New Brunswick and so on. The practice is typical, in particular, of the provincial-run energy crown corporations. Discrimination against foreign suppliers may also be seen in the way federal and provincial indirect taxes (the sales tax above all) are established with respect to domestic and imported products.[55]

Finally, it must be noted that the fairly recent decision of the federal government to extend the customs law to the shelf zone in the 200-mile economic activity zone may have far-reaching consequences for Canadian-American relations. This means that expensive drilling equipment, vessels and the like imported to carry out resources projects in the ocean would be subject to duties, which had not been the case so far. The step was planned to contribute to wider use of domestic technology by companies prospecting for oil and natural gas on the Atlantic shelf and preparing to begin commercial exploitation of the rich resources already discovered there.

Such is a general outline of state regulation of Canada's foreign trade as it existed at the end of the Liberal cabinet's rule. The special material presented here, as we see it, helps provide the background information for subsequent analysis of equally complex and intricate issues concerning the movement of the products of integrated ("North American") industries across the Canadian-American border and the extremely sophisticated forms of contemporary American protectionism.

As to the further evolution of the system for state regulation of foreign trade under Mulroney's Progressive Conservative government, it is to be noted that the first year of Conservative rule did not bring any particular changes in trade. In early 1985, however, a report was issued devoted to improving the system for financing export, but it was tentative rather than definitive.[56] The need to elaborate a long-term foreign economic strategy was also indicated in a report published in the same year by Foreign Secretary J. Clark.[57]

At the same time a new decisive shift towards trade liberalisation on a bilateral basis was apparent in relations with the USA. Its causes, the course of relevant interstate talks, the response of the academic community, businessmen and government officials, and finally, possible results of new bilateral trade agreements will be described in the subsequent chapters.

[1] See: *The Financial Post*, January 3, 1981.

[2] See: *Economic Council of Canada. Au courant*, Vol. 4, No. 2, 1983, p. 7.

[3] See: *A Riview of Canadian Trade Policy. A Background Document to Canadian Trade Policy for the 1980s*, Canadian Government Publishing Centre, Ottawa, 1983, pp. 31-32.

[4] *How to Secure and Enhance Canadian Access to Export Markets. Discussion Paper*. The Honourable James F. Kelleher, Minister of International Trade, Ottawa, 1985, p. 4.

[5] *Globe and Mail*, August 11, 1983.

[6] *Natural Resources in US-Canadian Relations*, Vol. I, p. 23.

[7] *Canada-United States Relations*, Vol. II, p. 5.

[8] See: Y. V. Shishkov, *op. cit.*, pp. 101-102.

[9] *Natural Resources in US-Canadian Relations*, Vol. I, pp. 19, 23.

[10] See: *1982 Yearbook of International Trade Statistics*, Vol. II (Commodity Tables), New York, 1984.

[11] *Natural Resources in US-Canadian Relations*, Vol. II (*Patterns and Trends in Resources Supplies and Politics*), ed. by C.E. Beigie and A.O. Hero, Jr., Westview Press, Boulder (Col.), 1980, pp. 591, 592.

[12] *A Review of Canadian Trade Policy*, p. 56.

[13] *Financial Times of Canada*, November 8, 1982, p. T6.

[14] *Globe and Mail*, June 6, 1984.

[15] *Canada-United States Relations*, Vol. II, p. 43.

[16] See: Y. V. Shishkov, *op. cit.*, pp. 198-99.

[17] Peter Morici assisted by Laura L. Megna, *Canada-United States Trade and Economic Interdependence*, C.D. Howe Research Institute, Montreal, 1980, p. 44.

[18] Y. V. Shishkov, *op. cit.*, p. 124.

[19] Alan M. Rugman, *op. cit.*, p. 153.

[20] Peter Morici, *The Global Competitive Struggle: Challenges to the United States and Canada*, C.D. Howe Institute, Toronto, 1984, p. 58.

[21] The results of numerous such studies were skilfully summed up in a book by Soviet researcher V. V. Popov in Chapters III-V of his book *Canada: Specifics of Industrial Development*, Nauka Publishers, Moscow, 1983 (in Russian).

[22] James G. Frank, *Assessing Trends in Canada's Competitive Position. The Case of Canada and the United States*, Printed in Canada, Ottawa, 1977.

[23] Experts at the Standing Senate Committee on Foreign Affairs estimated that in the mid-1970s productivity in Canada's manufacturing reached 80-85 per cent of the US level, while according to the complex efficiency index calculated as the cost per unit of output (including capital stock, materials and labour) American enterprises were estimated to be at least 20 per cent more efficient (*Canada-United States Relations*, Vol. II, p. 18).

[24] The results of a selective survey of enterprises belonging to leading sectoral monopolies in the USA and in Canada presented in the same study of the Standing Senate Committee on Foreign Affairs showed that Canadian productivity (output per employee calculated in physical terms) in steel, custom-built power transformers, and telecommunications equipment was equal to American, and in petrochemicals, synthetic fibres, major electrical appliances and motors was 82-89 per cent of the US level (*Canada-United States Relations*, Vol. II, p. 19). These figures and general conclusions are also supported by calculations in a report from experts at the Marketing and Economic Group (*Tomorrow's Customers 1978*. Published by the Marketing and Economic Group, Toronto, 1978, p. 18).

[25] B. W. Wilkinson, *Canada in the Changing World Economy*, C.D. Howe Research Institute, Montreal, 1980, pp. 61-67.
[26] *Ibid*, p. 62.
[27] *Canada-United States Relations*, Vol. II, p. 127.
[28] Department of Finance, *The Medium-Term Prospects for the Canadian Economy*, Ottawa, 1980, p. 14.
[29] *Journal of Commerce*, April 24, 1981.
[30] See: *Policy Review and Outlook, 1980. Investing in Our Own Future. A Staff Report*, Montreal, 1980, pp. 47-60. The interpretation (and periods) of reproductive cycles suggested in this and some other Canadian research papers usually do not coincide with the Marxist understanding of this phenomenon, therefore in our text the term cycle is used tentatively.
[31] *Ibid*., p. 53.
[32] *Canadian Business Review*, Spring 1978, pp. 21-22.
[33] *OECD Economic Survey. Canada*, Paris, June 1983, p. 17.
[34] *Ibid*., pp. 36-41.
[35] *Statistics Canada Daily*, April 11, 1983, p. 2; *Au courant*, Vol. 4, No 2, 1983, p. 14.
[36] *The Financial Post*, January 14, 1984; February 25, 1984; *Blick durch die Wirtschaft*, 2.11. 1981.
[37] *The Financial Post* , February 25, 1984.
[38] Edward A. Carmichael, *Policy Review and Outlook, 1985. Time for Decision*, C.D. Howe Research Institute, Toronto, 1985, p. 6.
[39] *The Financial Post 500* (Supplement to *The Financial Post*), Summer 1985, p. 37.
[40] Peter Morici, *The Global Competitive Struggle: Challenges to the United States and Canada*, C.D. Howe Research Institute, Toronto, 1984, p. 80.
[41] All this is thoroughly analysed and clearly revealed in the above-mentioned Soviet work (See: V.V. Popov, *op. cit*., pp. 57-117).
[42] *Economic Council of Canada. A Climate of Uncertainty*. Seventeenth Annual Review, Hull (Quebec), 1980, pp. 90-93, 155-61.
[43] *The Financial Post*, February 25, 1984, p. s2.
[44] *Canada-United States Relations*, Vol. II, p. 43.
[45] See: *Canada at the Threshold of the 1980s. Economics and Politics*, Nauka Publishers, Moscow, pp. 24-33 (in Russian).
[46] See: P. Morici, *The Global Competitive Struggle...*, p. 80.
[47] *Ibid*., pp. 80-81, *The Financial Post*, February 25, 1984, p. s2.
[47a] *The Financial Post*, February 25, 1984, p. s1.
[48] See: *Canadian Trade Policy for the 1980s. A Discussion Paper*, Canadian Government Publishing Centre, Ottawa, 1983, p. 2.
[49] *Globe and Mail*, May 27, 1983.
[50] Grant L. Reuber, *Canada's Political Economy. Current Issues*, McGraw-Hill Ryerson Ltd., Toronto, 1980, p. 125.
[51] *Journal of Commerce*, December 27, 1983.
[52] *A Review of Canadian Trade Policy*, p. 133.
[53] *Journal of Commerce*, December 27, 1983, p. 5A.
[54] *Report on the Nation* (Supplement to *The Financial Post*), Winter 1983/84, p. 51.
[55] *A Review of Canadian Trade Policy*, pp. 41-42.
[56] See: *Export Financing. Consultation Paper*, Ottawa, January 1985.
[57] *Competitiveness and Security. Directions for Canada's International Relations*, Ottawa, 1985.

Chapter Six

Contemporary-Stage Contradictions in Bilateral Trade Liberalisation

The first Canadian-American agreement exempting a large range of goods circulating in reciprocal trade from duties had been worked out back in 1911, but was never put into effect. Moreover, it even cost Canada's Prime Minister Wilfrid Laurier defeat in elections and retirement. In 1947 a series of secret bilateral negotiations on introducting free trade was interrupted as a result of aggravated political contradictions.

It was also in a shroud of secrecy that talks were held culminating in 1965 in the signing of the Auto-Pact—so far the most large-scale and far-reaching bilateral document concerning liberalisation of the trade turnover on a sectoral basis.

In our day there are relatively few advocates of complete and unconditional liberalistation of trade with the USA in the country (except for the upper part of Big Business), and still fewer proponents of comprehensive official integration along EEC lines ready to support Reagan's idea of a Triple Alliance between the USA, Canada and Mexico. However, the idea of gradually extending liberalisation in reciprocal trade with the USA to more sectors has lately received growing support. The relevant talks began in spring 1984, under Trudeau, then were interrupted for a time following the Liberals' stunning defeat at the elections in September of the same year, and then resumed gaining fresh momentum after the Quebec meeting between Mulroney and Reagan in March 1985.

Obviously, sooner or later, things will come to a point where new interstate agreements on sectoral trade liberalisation will be concluded, and the choice of sectors regarding which talks are being held or being prepared for seems quite fortunate from the standpoint of Canada's interests. Yet it would be naive to expect that results of these agreements would be purely positive from the vantage point of the needs and interests of the integration's junior partner. To gain a more realistic idea of the consequences for Canada of new sectoral agreements, it would be useful, in our view, to analyse the experience of liberalised trade in three highly integrated "North American" manufacturing industries.

Finally, it is important to emphasise that the background against which talks on further liberalisation of reciprocal trade between the two countries are being held is an extremely contradictory combination of consistent and large-scale reduction of customs duties on a multilateral basis under the GATT and spreading and expansion of the arsenal of devices for non-tariff protectionism, in which field the USA sets the tone. This unusual and dangerous (particularly for smaller trade countries) combination practically leaves Canada no other option but to attempt to retain, and if possible expand, its access to the American market by concluding new sectoral agreements.

How Free Is Free Trade?

When problems of trade liberalisation are discussed one often hears that in reciprocal trade between the USA and Canada there exists a special sphere where common market conditions have been created, i. e. tariff-free exchange of products is possible in three integrated manufacturing industries—farm machinery, arms manufacturing and the automotive industry. This description is largely correct in reflecting the commercial-political terms operating in this part of the regional market. It has a shortcoming, however, in that it simplifies and idealises relations in these three industries and on the relevant commodity markets of the subcontinent. Actually, conditions here are a far cry from the free movement of factors of production, and sectoral output still clearly falls into two rather unequal (both in quantity and in quality) parts—the American and the Canadian. In other words, the border dividing the national sectors is relatively easily overcome, but, first, not equally easily in both directions and, second, it is nevertheless felt, to say the least.

It is also a matter of simplification to heap all these sectors of Canadian-American trade together and approach their problems and trends with insufficient differentiation. They differ significantly both in the mechanism of liberalisation and the liberalisation's impact on national production, and the degree to which production processes are actually integrated in the region. That is why, before passing on to the prospects of liberalisation involving new commodity groups, it is necessary in our view to review each of these sectors separately.

The first commodity group to which trade liberalisation was applied was farm machinery, including a broad range of products. Contrary to a widespread conviction, there is no interstate agreement on duty-free reciprocal trade in farm machinery. In the interests of the farmers each of the sides has introduced liberalisation of relevant import unilaterally: the USA back in 1913 and Canada in 1944. The extent to which import is tariff-free is also far from equal. In some products access to the market in the USA and in Canada is different, and there is reason to believe that this serves as an obstacle for the development of certain production facilities in Canada, in particular, for output of multi-purpose agricultural machines.

The Canadian farm machinery market is only a relatively small part of an extensive regional market in which several "North American" transnationals prevail. The basic part of the sector's production is in the hands of International Harvester Co. and John Deere Ltd., both completely controlled by US capital, and also Massey-Ferguson representing national financial interests. The largest of these, the national monopoly Massey-Ferguson, in 1984 occupied 50th place in the list of the top 500 companies in sales (yet in 1980 it had rated 15th), and the Canadian subsidiary of the Chicago monopoly International Harvester was in 92nd place.[1] A few more major American companies are regular suppliers of products to Canada without having their own enterprises in that country. The situation in the sector has traditionally been influenced by the agricultural yields in both countries, which determine the farmers' solvent demand. Back in the early 1960s the Canadian analyst R.J. Wonnacott placed farm machinery manufacture among the industries most directly dependent on business activity in the USA.[2] Over the last decade Canada's share in the gross sectoral output of the two countries declined, while in the trade with the USA in farm machinery Canada has a growing deficit.

In all likeliness, both unfavourable developments have to do with differences in the two countries' customs tariff structure and with insufficient exemptions for Canada from the taxing of American import of farm machinery. Indeed, Canada has the largest deficit, as a rule, in sectoral trade in tractors and parts. And if the import of American all-purpose tractors to Canada is duty-free, in the USA the same holds only for tractors which are officially classified by the American side as suitable for use in agriculture. This means that the machinery transnationals (including Massey-Ferguson) are not interested in locating tractor plants in Canada. As a result, up to 20 per cent of the machinery used in construction and mining are mostly served by imported American crawler and wheeled tractors. Most of such tractors practically do not differ from agricultural tractors, but their reciprocal duty-free import from Canada to the USA is impossible.

There are quite significant differences in terms of access of all kinds of accessories and parts for agricultural machinery to the markets of the two countries. Any such product has been traditionally imported into Canada duty-free (until recently this was based on a complicated procedure of applying national customs legislation rules on end use in agriculture). As to Canadian exporters, it is still necessary for them to first prove to US customs officials not just that the accessories could be used in agriculture but also that the latter field is the principal one in their use. Canadian exporters have to submit numerous papers proving the fact of these accessories' primary use on farms. A letter sent by a group of Canadian exporters to the Standing Senate Committee on Foreign Affairs pointed out, for example, that in some instances it proved impossible to obtain permission for duty-free import to the USA even of accessories specially designed for use in agriculture.[3] The question is particularly intricate for the most up-to-date product components which may be widely used not only on farms.

Yet the clearest instance of discrimination against Canadian producers is supply of spare parts for repairs or guarantee maintenance of farm machinery. Until recently it had been sufficient to obtain a simple paper pledging end use in agriculture to import them into Canada duty-free as was the case for accessories or parts intended for assembly of new machines. In the American tariff, however, all parts are classified into groups with obligatory payment of the relevant import duty irrespective of the sphere of end use. It is of no interest to anyone that, for example, some spare part is being imported into the USA to repair an agricultural machine produced in Canada and imported earlier duty-free. Under the circumstances, it is more profitable for the transnationals operating in both countries to locate parts plants in the USA to supply the entire North American market from there. The level of American duties on parts is sufficiently high (5-15%) to have a serious impact on locating plants within the integrated farm machinery manufacturing.

In these conditions a marked advantage is enjoyed by the large-scale, geographically and structurally diversified production of the transnationals which offers more room for manoeuvring in attaining optimal location of facilities with due account for both contries' customs tariffs. The American tariff serves as a major obstacle for establishing efficient long-run production by the relatively minor producers of farm machinery and parts, of whom there are quite many in Canada's western provinces. Many of them see no other choice than to move to the neighbouring US states irrespective of the costs involved and supply their traditional customers in Canada from there, at the same time trying to establish themselves on the market of the host country.

This, however, does not mean that integration of farm machinery production in the two countries has ceased as a result of incomplete, and in a certain sence, unilateral liberalisation of the sectoral market. Moreover, inconsistencies in the structure and principles underlying national customs tariffs even provide additional incentives for further division of labour in the sector. The trouble is that the new division of labour is not very profitable for Canada which gets a decreasing share of the growing sectoral output and an increasing deficit in farm machinery trade. In S. Clarkson's opinion, farm machinery output on the whole "has proven free trade has not succeeded".[4]

In the early 1980s government trade experts argued that to fundamentally improve the situation in Canadian farm machinery manufacture it was necessary to completely liberalise access to the US market for its output, including tractors of all kinds and any product components and parts.[5] No doubt, a new step in the direction of trade integration would put into operation forces capable of causing a serious regrouping in the system of technological, production and financial relations of North American farm machinery manufacturing.

It is also obvious that the overall efficiency of sectoral production would rise as a result and equalisation of import terms would make it more profitable in some cases to locate certain new enterprises in Canada. The question is to what extent this would be attractive to the American transnationals and whether they would "allow" their government to take such a serious commercial-political step. S. Clarkson writes: "It is hard to see why the U. S. would grant Canadian manufacturers the same free access to its farm machinery market as American manufacturers have in the Canadian market, given the advantages which flow to the U.S. from the status quo".[6] Perhaps, in a new round of the sectoral talks started under Trudeau, the Canadian side would manage to offer the Americans sufficient advantages (and not necessarily in farm machinery trade, as has been the case until now) in exchange for the elimination of remaining tariff barriers in the way of bilateral exchange of the sector's products or threaten to introduce reciprocal tariff restrictions in case of nonagreement. Be that as it may, complete liberalisation of mutual trade turnover in the sector, already on the agenda of talks between the trade ministers of the two countries, would be in the long-term interests of the Canadian side.

The second group of products crossing the Canadian-American border duty-free consists of military hardware. Although Canadian statistics fail to present full data concerning output of arms in the country, these data being dispersed among different statistical groups, there are certain general ideas concerning this heterogeneous sector sufficiently reliable and not subject to doubt even today. For the present analysis, the important point is not so much the existence of the Canadian and American arms industries as the American monopolies' arms production on the territory of the subcontinent's two countries, and there is a good deal of indirect evidence to support the fact.[7] So that, strictly speaking, not the arms production is Canadian, particularly since most of the work is done on orders from the Pentagon, but rather the associated factors are Canadian, such as manpower, consumption of raw materials, energy and so on.

In addition to the purely military-political aspects in the problem, it was the above circumstance that evidently made it possible for the two countries' governments to reach a fundamental agreement on arms production sharing and, on that basis, to conclude a whole series of specific working agreements, the first one in 1959. In the most general form, the agreements boil down to securing unhindered trade in all military products made both on direct orders from the governments and on subcontracts with individual companies. With respect to a wide range of items the US government made an exception for Canadian suppliers from the general rule according to which the Department of Defense was to place orders only among American companies, and also exempted from duties (which range from 12 to 17 per cent) all relevant products made in Canada on subcontracts of American companies.

In their turn, Canadian import duties on military products from the USA were abolished in 1966, but only for purchases exceeding 250,000 dollars. The latter reservation was made in view of the fact that a programme encouraging involvement of small business in military production was (and still is) operating in the USA. Without the reservation there might have arisen an undesirable flow of minor deliveries under subcontracts from the USA to Canada restricting participation of local companies in fulfilling American orders. Canada also retained a price preference (of 10 per cent) for national producers competing against foreign firms for military orders. In 1963 it was additionally agreed that movement of military products over the border in both directions was to be "roughly balanced". More than half the deliveries from Canada to the USA under the production sharing agreement are usually subcontracts.

In this connection the Canadian Communists noted that "In exchange for turning itself into a resources base for U.S. industries, Canada was given wider access to the US market and was the beneficiary of orders from the U.S. war machine".[8]

The arms production sharing system created incentives for Canadian companies specialisation and, in a number of cases, led to a rise in production efficiency and product competitiveness. Canadian industry scored particular successes in manufacturing sophisticated communications equipment, navigation equipment for the air force and navy, and precision engineering and electronics components for modern combat equipment. About 120,000 employees are directly or indirectly involved in fulfilment of US military orders in Canada.

The mechanism of American-Canadian collaboration in the military-economic field involves one development with highly contradictory consequences for Canada. Canadian companies working on military orders have relatively easy access to the advanced technology belonging to the monopolies of the US military-industrial complex. On the one hand, this strengthens their competitive positions and enables them to save on their own research. On the other, the habit of putting out standard specialised products under foreign licences has led to Canadian firms losing "the capability to design and produce almost all separate weapon systems and, with that, other important innovative capacities as well". As a result "Canada relies on imported technology more than any other industrialized country".[9]

The need to secure an approximate balance between reciprocal arms deliveries gave rise to the practice of providing for offset procurement in working out the terms of orders for American combat equipment to be placed by the Canadian defence department, these purchases as a rule linked to the manufacture of similar arms. This also involves consequences of a dual nature. On the one hand, the sale of subcontractors' output in the USA is expanded which gives Canada additional profits. On the other, involvement of minor Canadian companies in subcontract work leads to the orders' costs growing unjustifiably high.

In recent years sceptical voices are increasingly heard in Canada regarding the division of labour existing between the two countries in the arms industry. The very idea of serving as a "partial worker" in manufacturing complex American output has been questioned. It has been proposed, instead, to replace the existing cooperation by a system under which some (perhaps not many) types of weapons would be made completely in Canada to cover the needs of both countries' defence departments. Thereby Canada would have a guaranteed market for a limited range of high-technology products.

The idea has been receiving growing support in the country. However, chances that it will be implemented soon are fairly small. First of all, there would be the complicated and controversial problem of choosing the field of specialisation for Canadian producers. Secondly, the USA would hardly cease producing certain weapons completely, even if they were to be provided by such a reliable neighbour and ally as Canada.

The arms production sharing system as it is gives rise to friction between the two countries. Since the early 1980s the balance in the arms trade has clearly been in favour of the stronger member of the alliance. From the late 1970s influential forces in the USA have been lobbying Congress to restrict use of foreign subcontracts in manufacturing products involving sophisticated technology. Back in the 1970s a number of amendments were introduced into the Defence Appropriation Act to restrict use of imported items. Many Canadian products—from parachutes, uniforms and life belts to naval vessels—were excluded from the Pentagon's import lists. Following lengthy debates in 1982 the Congress adopted an amendment banning use of components containing foreign-made specialty metals in assembling American military hardware. According to some estimates this would reduce Canadian arms component export by 100 million dollars a year, which,combined with Canada's pledge to buy a large number of American aircraft during the 1980s to re-equip its air force, would give the country a permanent annual deficit in the arms trade totalling 750 million dollars (while during the previous twenty years Canada's aggregate deficit in the arms production sharing programme was less than 400 million dollars).

The adoption of such restrictions has undermined the existing system to a certain degree. Canadian analysts, however, believe that the increased contradictions in this field will be settled "because of the Pentagon's strong interest in Canadian industry as an integral part of its North American defence preparedness planning".[10]

The overall situation in North American arms industries can hardly be termed equal and prospects for the development of Canadian-American relations in this field brilliant. As in the case with farm machinery, the report of the Standing Senate Committee on Foreign Affairs links the possibility of strengthening Canada's role as arms supplier for the Pentagon to further extension of trade integration, mutual elimination of all elements of protectionism in placing orders and total liberalisation of the flow of relevant products between the countries.

In recent years military-purpose output has been increasingly frequently mentioned among the sectors in Canadian-American trade in which new agreements on bilateral trade turnover liberalisation are possible. The coming to power of Mulroney's Conservative government makes the signing of such an agreement more probable. The first official visit to Washington by the new Prime Minister showed his pro-US enthusiasm and the desire to collaborate with the Reagan Administration in the military-political field.[11] It was in the same vein that the Conservatives supported Reagan's Star Wars and signed an agreement on joint American-Canadian modernisation of the early warning radar system in the north of the continent during the US President's visit to Ottawa in March 1985.[12] No wonder President Reagan made some concessions at the talks in Quebec opening the way to a satisfactory settlement for Canada of the question of American purchases of military hardware.

Finally, for many years up to a third (and sometimes even more) of trade between the USA and Canada has consisted of automotive products under the 1965 bilateral interstate agreement (new cars, trucks, assemblies and parts, rubber product components). It is known on both sides of the border that "the cross border flow of automotive products constitutes the largest, most complex and currently the most controversial area of trade between the two countries".[13] The introduction of the Auto-Pact "has produced a marked increase in the integration of the North American automotive industry".[14]

Free trade in motor vehicles and also accessories and components for their assembly extended specialisation of enterprises on both sides of the border and provoked an abrupt expansion of bilateral automotive trade (up to 80 per cent of the Canadian output is exported to the USA now) and a rise in the sector's efficiency and productivity. At the same time there emerged negative consequences which such liberalisation held for the weaker partner. Thus, the larger share of the most science-intensive and advanced manufacture of components (parts) came to be concentrated in the USA, while vehicle assembly fell mostly to Canada's lot as the cruder and more labour-intensive process.

When the Auto-Pact was concluded it was presumed that output of motor vehicles in Canada would approximately be equal to sales on the domestic market, but in fact, Canadian car manufacture exceeds sales on the local market by 100 per cent.[15] In component output, however, Canada's share (7 per cent in the latter half of the 1970s) was nearly half its share in vehicle assembly. In component and motor vehicle trade Canada had a chronic deficit until 1984, and the Canadian content of the finished products put out by its assembly plants even declined as compared with 1964 (from 58 to 56 per cent in 1980). Producing over 12 per cent of the sector's output, Canada, nevertheless, is content with only 8.5-9 per cent of the value added and sectoral employment and receives on an average less than 8 per cent of the new investments. Canadian subsidiaries of American monopolies virtually lack their own research facilities and depend completely on the technology transferred to them from the USA. For example, in 1980 the top three companies in the sector did research and development worth 5,400 million dollars in the USA, and only 5 million in Canada, i. e. just 0.1 per cent!

From the very outset the Canadian automotive industry was set up as an extension of the American automotive industry to the North, since it was created almost exclusively by the Big Three US monopolies (General Motors, Ford Motor and Chrysler). Still, the conditions under which the sector developed in Canada differed significantly from those in which the parent companies operated at home. The Canadian customs tariff provided quite effective protection for motor vehicle assembly and, to a much smaller extent, for output of components. Since the American customs virtually excluded mass-scale access to the US market by Canadian automotive products, Canadian industry had to be restricted to short-run production mostly oriented towards the domestic market. Besides, acute rivalry on the domestic market between the Canadian subsidiaries of the Big Three resulted in an unwarranted large number of models, additionally reducing efficiency at Canadian enterprises. Due to the structural weakness of Canadian automotive manufacturing car prices were on an average 10 per cent higher than the American prices. This gap provided scope for the parent enterprises' output to penetrate Canada's domestic market despite customs protection. As a result trade between the two countries in this commodity group was marked by a chronic and growing deficit for Canada.

All this prompted the Canadian government in the early 1960s to undertake unilateral steps to make it easier for local producers to import assemblies and components with a corresponding increase in deliveries of similar intermediary products to the USA. The intention was to create conditions for raising efficiency at Canadian enterprises by saving on duties paid in importing components (parts) since these duties were to be returned under the new terms, and also by a certain increase in overall scale of production and longer production runs.

There was a real danger that the USA would reciprocate by introducing additional (countervailing) duties to neutralise the effect of the subsidies. With the active mediation of the Canadian-American Ministerial Committee on Trade and Economic Affairs the two governments embarked on secret talks which, unexpectedly for many, culminated in the signing of the Auto-Pact.

Under the agreement the American side eliminated all import duties on automotive products provided the "North Amercian content" would not be less than 50 per cent. The latter reservation had the long-term objective of preventing the infiltration via Canada of the American market by products of the West European and Japanese monopolies.

At the same time Canada did not restrict liberalisation to American suppliers alone and provided no demand for a minimal "North American content" in the value of the duty-free product import. For that reason Canada does not have to apply to the GATT, as the USA does, for permission every two years and subsequently make exemptions for American suppliers from the overall customs rules. For that advantage, however, it has had, among other things, to pay the price of seeing almost all of the Big Three's facilities for the production of economical four-cylinder and diesel engines move from Canada to Mexico, Brasil and Japan from where the relevant products are imported duty-free to Canada's (and not the USA's) motor vehicle assembly plants.

The authors of the Auto-Pact, at the signing of the agreement, stated the three chief objectives it pursued: 1) The creation of a broader market for automotive products within which the full benefits of specialisation and large-scale production can be achieved; 2) The liberalisation of United States and Canadian automotive trade with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding regional market; 3) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.[16]

None of the above objectives may be regarded as fully realised. The degree of specialisation and scale of production attained can hardly be regarded as up to the potential possibilities of the largest regional market in the capitalist world. Liberalisation of reciprocal trade here is indeed the fullest among the three industrial sectors considered above. Yet it is hardly possible to speak about development of the regional market "on a fair and equitable basis" after the facts described above. As to market forces operating freely, these forces are extensively limited by the fact that, regardless of the customs tariffs, the dominant position in production and on the markets of both countries belongs to the three American transnationals whose interests are instrumental in locating investments, shaping the structure of production and commodity flows.

Aware of the incomplete liberalisation of trade even in the most fully integrated sector of the North American economy such as automotive manufacturing, the authors of the much quoted report of the Standing Senate Committee on Foreign Affairs wrote in conclusion: "If each member-country exempted the other from its NTBs (non-tariff barriers—*Ed.*) and there was truly a North American market, companies could then decide to invest on the basis of the relative costs of production as adjusted by the rate of exchange".[17] It would seem, however, that it is hardly a matter of only non-tariff barriers. Taken the prevailing role of monopolies, considerations of efficiency based on comparing relative costs in the specific conditions of definite countries and their regions have largely lost their imperative role for private capital, even when the commercial-policy set-up does not limit its freedom. According to S. Clarkson, an analysis of American multinational corporations in Canada without relating them to US power creates the impression that they are operating exclusively on economic grounds and are completely divorced from political factors.[18]

Finally, there is no guarantee that, as a result of spontaneous operation of market forces, Canada would indeed gain a larger share of sectoral production, a balanced structure of that production, and a worthy place on the regional market. Given the tremendous inequality of forces between the partners in integration and the prevailing strength of the American transnationals, rejecting the opportunity of influencing economic processes would involve not a fairer distribution of benefits derived from deeper division of labour within the sector but rather a further succumbing of the weaker side's subsidiary production to the interests of leading foreign monopolies.

The late 1970s and early 1980s were marked by a deep crisis in North American automotive manufacturing. The crisis brought a great hardship to Canadians: plants were shut down, unemployment grew, and, simultaneously, there was an abrupt new rise in the trade deficit in relevant products. No wonder voices were raised in the country with increasing frequency to revise the Auto-Pact along several lines.

However, on the wave of the economic boom in 1983-1985 which was probably most clearly evident on the North American automotive market, once again (as in the early years of the Pact) Canada gained an impressive surplus in automotive trade with the USA, particularly in finished cars. This confirmed the conclusion reached by experts on the mechanism of the Auto-Pact that "in boom times Canada may break even, but in bad times its deficit falls to alarming depths".[19]

Yet, practically regardless of the situation in the sector, in recent years the Canadian public had increasingly come to believe that the time had come to force the American transnationals to undertake efforts to develop output of components for motor vehicles—products distinguished by higher science-intensity (as compared with assembly), attracting more skilled and competent manpower, and associated with research and development (almost completely absent in Canadian automotive manufacturing), etc. Thus, the Ontario Minister of Industry and Tourism, Larry Grossman, said in a newspaper interview: "When the pact was signed in 1965, the world was different. Assembly plants were important; now they aren't. Now, the parts business is the place to be".[20] And by the way, in the early 1980s the provincial government extracted the pledge from the Big Three to greatly increase their capital investments in Ontario.

During the crisis Canadian business and government circles played about with the idea of the country availing itself of its right to suspend the agreement so as to revive it in an altered form. As to the Standing Senate Committee on Foreign Affairs, its experts warned against such a step regarding it as extremely dangerous. They recalled, first of all, that the USA had repeatedly pointed out, through influential members of government and business, that Canada had gained unilateral advantages from the Auto-Pact referring to the persistent surplus Canada had in finished motor vehicle trade, and that in August 1971 President Nixon had very nearly suspended the agreement unilaterally. Second, the chief value of agreements of the Auto-Pact type lies in the stable commercial-political set-up they produce. American transnationals operating in Canada like to point to the alleged risks they run into in that country when they locate enterprises with capacities many times greater than the size of its domestic market. In the Committee's opinion, the transnationals should hardly be provided with new arguments to support their case.[21]

It is obvious to the government experts (quite reasonably) that it is necessary to set up a working inter-governmental body to discuss outstanding issues, smooth over differences, agree upon and adopt amendments to the Auto-Pact. Such a body was never set up in the nearly 20 years of the agreement's operation. Apparently this was due to the traditional reluctance in North America to create instruments capable of interfering in the free play of market forces. And if in the more *dirigiste* Canada the idea of more actively influencing the American transnationals' production policies generally shocks no one, in the USA an idea of this kind is still regarded as an attack against free enterprise.

The consequences of bilateral trade liberalisation in motor vehicles serve as an example of what (at best) awaits Canadian manufacturing industry as a result of sectoral integration. The advocates of "continentalism" harp on the positive effect of the sector's rationalisation for the Canadian segment of North American automotive manufacturing. "Nationalists", on the contrary, draw arguments from the results of the Auto-Pact to support their "homespun" development model providing for the independent existence of national sectors oriented to the domestic market and simultaneously carrying on large-scale export expansion by relying on high standards of production and multilateral trade liberalisation under the GATT (see Chapter Seven below). They criticise policies pursued by the American transnationals in Canada which restrict the scope of their subsidiaries' work exclusively to the local market and refuse to grant them a mandate to set up large-scale specialised production relying on their own research facilities and oriented towards extensive sale in dozens of countries.[22]

Since the late 1970s, and particularly during the latest crisis, the governments of Ontario and Quebec where the principal automotive plants are located, without waiting for the agreement to be revised, have more than once displayed their own initiative by granting the subsidiaries of the Big Three generous subsidies to prompt them to build new enterprises, including those producing parts and accessories (e.g. for engines) and set up their own research and development operations. Many important issues are frequently discussed at the provincial levels concerning the sector's future development (the need to design an original all-Canadian car just as Volvo and SAAB developed the Swedish car which has gained success and popularity; the holding of talks with the USA with the aim of extending the Auto-Pact to spare parts trade, etc.).

In the course of time, however, the problem of the Auto-Pact has come to be seen in a new light. From stepped-up export of finished cars to North America, companies in Japan and the West European countries are increasingly passing to setting up their own production, in partnership with local firms, in the USA, Mexico and Canada. It is to be noted, however, that Canada has so far received only a relatively small part of their capital investment. The activation of Japanese car companies in the USA has been observed with particular envy in Canada: these companies had already invested over 3 billion US dollars directly in production in the USA by 1984. Under the circumstances it is increasingly often heard that "the American car industry is internationalizing so rapidly as to make the Auto-Pact irrelevant".[23]

In recent years Canadian policy with respect to car imports from Japan has evolved from efforts to restrain it by means of a system of voluntary quotas to creating incentives for Japanese companies to make wider use of Canadian-produced components in their output or to directly open their assembly plants with support from the federal and provincial governments. In 1983, while overall sale of cars in Canada increased by 18 per cent reaching 841,000, the import of Japanese cars declined in absolute terms, and their share on the market fell from 25 per cent in 1982 to less than 21 per cent. The agreed voluntary quota for 1983/84 was reduced to 153,000, but at the same time the Canadian side officially confirmed its intention to hold talks with Japan to conclude an agreement of the Auto-Pact type on free trade in cars providing for the manufacture of Japanese cars in Canada in some proportion to their import from overseas and a minimal Canadian content in overall Japanese automotive output sold on the country's market.

The conclusion of a new bilateral Auto-Pact, particularly with the Japanese, is no easy or urgent matter. However, the Japanese side has undertaken steps showing that it is ready to take part in automotive manufacturing directly in Canada. Thus, Toyota opened an aluminium wheel plant, and Honda Motor Co. announced its intention to build a 100-million dollar assembly plant producing 40,000 cars a year.[24] The laller project, however, provoked surprise and embarrassment: first, the optimal size of a car assembly plant in North America is estimated at no less than 200,000 cars; second, the building of a plant intended for the local market contradicts Canada's overall policy which sees one of the ways to raising efficiency in manufacturing in specialisation of branch plants of foreign monopolies and a mandate for these subsidiaries to produce for large international markets. Nevertheless, the Honda Motor initiative was warmly supported in Canada, particularly in trade union circles. After all, this may be the first step in the development of an original Canadian car which would embody the latest in Japanese technology and design.

Be that as it may, North American automotive manufacturing is at the threshold of deep-going structural change and it is not known whether the Auto-Pact will outlive that change, and if it does, in what shape.

The Tokyo Round and Increasing American Protectionism

In the course of the history of Canadian-American relations outbursts of American protectionism have repeatedly threatened certain Canadian manufacturing industries. On the other hand, until the early 1970s, introducing some temporary restrictions on import or additional levies and duties, the USA usually exempted Canada from the general terms—a practice that served as one of the integral elements of the special relationship and the object of pride on both sides of the border. Anyway, "American economic nationalism has always set the context for the stunted development of the Canadian industrial structure".[25]

President Nixon's unexpected decision to introduce a 10 per cent import surcharge as of autumn 1971 had not been coordinated with the nearest neighbour and ally and did not, as had been usually the case, exempt Canada. In Canada the decision was regarded as underhanded and insulting national dignity, particularly since the blow had been dealt not at one group of producers but at the entire industrial sphere. As Trudeau put it to Nixon: "Are you going to push our heads under water each time we manage to surface?".[26] And although the crisis blew over soon, the Nixon shock provoked acute dissatisfaction with the domination of foreign monopolies in the country and had far-reaching consequences for Canadian-American trade still felt today.

In an article published in1972 by Mitchel Sharp, Canada's Secretary of State for External Affairs at the time, the options faced by the country were set down (these options are still the same today):

1) Canada can seek to maintain more or less its present relationship with the United States with a minimum of policy adjustments;

2) Canada can move deliberately toward close integration with the United States, up to and including the establishment of a North American free-trade area;

3) Canada can actively develop economic cooperation with third countries in order to "create counterweights" to one-sided orientation on the US market and sources of supply.[27]

The last-mentioned principle of foreign trade policy (combined with some other, more particular objectives and means) was called the Third Option, catchwords highlighting the first half of the 1970s. And although subsequently, in a context of slow and uncertain recovery after the 1974-1975 economic crisis and the radically changed energy situation, the expression almost completely disappeared from official rhetoric, which once again laid emphasis on the "continental approach" to emerging general problems, the idea of geographical diversification of trade relations still has numerous advocates and has been reflected in government papers of both ruling parties.

As a sign of nationalist, largely anti-American moods the Third Option idea has played a role in foreign trade policy-making in a certain sense similar to the Canadianisation idea in long-term foreign investment policy-making.

A peculiar response to the Canadianisation policy by Reagan, who had come to the White House at the time, was a revival of the idea of a trilateral (US-Canada-Mexico) integration agreement providing for a North American economic community of the EEC type, and also an energy alliance comprising the same three countries. However, the idea was not even discussed, because both Canada and Mexico immediately announced, both individually and jointly, that they were opposed to it. In November 1980 Finance Minister Marc Lalond reaffirmed officially during his visit to New York where he had gone to explain the aims of the recently announced National Energy Programme that neither Canada nor Mexico were interested in the idea of the community in general and a continental energy policy in particular.[28] "Mexican industry will not survive in this alliance," wrote the progressive Mexican scholar and politician V. L. Urkidi.[29]

A principled and unequivocal appraisal of Reagan's projects was offered by the Canadian Communists. William Kashtan stated: "U.S. imperialism is out to create an empire on the North American continent via a North American Accord or common market. In this way it would be able to utilize the huge natural resources and energy of Canada and Mexico in the U.S. 'national interest' and in its drive for world domination."[30] The idea of an integration agreement aimed at forcing Mexico and Canada to enter an undesirable and unequal political and economic alliance with the USA was also roundly condemned in a joint declaration of the Canadian and US communist parties in New York in June 1981.[31]

"Canada-US relations were nearing their nadir"[32] in winter 1981/82 while the two countries were slipping into a new economic crisis. The crisis itself erupted with full force in 1982 and once again demonstated the unfortunate but irrevocable bond between the two countries' economic destinies and the particular importance for Canadian industrial companies to have access to the American market. This led to another abrupt turn of the wheel in the policies of the Trudeau government which had been rather inconsistent even before that. An extremely sharp turn was taken this time towards "continental convergence". Trudeau's leaving the post of the Liberal party's leader in summer 1984 and the impressive victory at the September elections by the Progressive Conservative Party headed by the young and energetic Brian Mulroney who had replaced J. Clark in June 1983, when the latter backed out, gave rise to a radically new situation in the country's ruling quarters and it is in the light of the above prospects of mutual tariff "disarmament" between Canada and the USA should be considered.

Returning a bit back it is to be noted that the geographical diversification course in the country's foreign trade relations announced in the early 1970s, combined with indepth objective changes in the world economy, and primarily the struggle to restructure international economic relations along the lines of justice and equality, determined Canada's growing interest in multilateral talks and global regulation mechanisms.

Canada repeatedly showed that it was prepared to take part in trade talks on a broad international basis as early as the first postwar years and skilfully took advantage of such talks to extract tariff concessions from the USA. All the GATT rounds (1946 Geneva, 1949 Annecy, France, 1950 and 1951 Torquay, Britain and so forth) were held with the active participation of delegates from Canada. An important precedent occurred in 1950 in Torquay: for the first time Canada permitted itself to be persuaded to abandon one element in the preferential system in its relations with the UK (mutual preferential duty on tin plate) in exchange for tariff concessions from the USA.[33] At the 1951 talks mutual concessions by the USA and Canada in tariffs for a number of goods were hailed as "the greatest success". In particular, American specific duties on some of the ores and metals imported from Canada were reduced considerably. Canada obtained similar concessions, also mainly in its role as resources exporter, from the USA at the Geneva talks in 1956. Nevertheless, in many important items, access to the largest external market was still seriously impeded by high duties (mostly this involved semi-manufactured and finished industrial goods).

The multilateral Kennedy Round that finished in 1967 brought Canada a new easing of the terms of its goods' access to the markets of industrially developed countries, including the USA. Canadian exporters, however, still remained dissatisfied with the marked gap in the tariffs of most trade partners between raw material duties, on the one hand, and semi-manufactured and finished goods duties, on the other.

The sectoral approach formula was a new development in Canada's strategy at the Tokyo Round which began in 1973. According to Canada's proposal tariff restrictions on international movement of goods were to be discussed as a complex and, so to say, vertically—by technologically related commodity groups, from specific types of raw materials to the finished products obtained as a result of their processing. However, the approach was not adopted as a general formula for the talks due to lack of US support. After marking time the Tokyo Round continued more successfully when the US-supported Swiss formula was adopted seeking "disproportionately deep cuts on high-tariff items while settling for lower reductions on low-tariff goods".[34] This was not very much in line with Canada's interests, since its own tariffs include rather high duties on finished goods and the principal irritation is due not to the impressive duties of its main trade partners on finished goods but rather their "intermediate", moderately high and yet effective rates on import of semi-manufactured industrial goods, particularly metal items. Canada agreed to hold the talks according to the Swiss formula only provided it would receive sufficient bilateral compensation. In the course of 1978 it managed to extract major concessions in talks with the USA—complete removal of tariffs lower than 5 per cent for 120 items and a 60 per cent reduction of the rates on the rest of its export goods. Similar talks with the EEC and Japan, however, yielded fairly modest results.

The overall result of the Tokyo Round for Canada's trade with the USA was as follows: by 1987 up to 80 per cent of its deliveries to the USA would be duty-free, and the average level of duties on total US import from Canada would be only 3 per cent (according to another estimate, 95 per cent of that import would be subject to duties of 5 per cent or less).[35]

The tariff regime in present-day international trade, however, only partially determines the real opportunities for foreign goods access to a country's market. The Tokyo Round began and ended, but the turn towards protectionism started under Nixon continued to develop by larger-scale and more sophisticated use of various non-tariff restrictions—from Carter's favourite import quotas to introduction of "contingency" and "retaliatory" measures. As S. Clarkson put it: "In the 1974 Trade Act and the 1979 Trade Agreements Act, Congress refined the arsenal of weapons to be used against foreign products that were subject to progressively lower tariffs as a result of multilateral trade negotiations (MTN) at GATT over the years". And he added: "As tariffs declined, the American system of contingency protection became the prime threat to Canada's export strategy."[36] It is significant that in 1984 alone, according to incomplete data, Congress considered 160 pieces of protectionist legislation.[37]

In the same 1984 the USA once again displayed its ability to resort to demagogy and cover-ups managing to conceal obviously protectionist measures to restrict carbon steel import under the screen of control over import growth intended to prevent excessively increased deliveries from certain countries. In effect, having replaced the quotas introduced earlier in the year, the measure was a "new edition" of the same "voluntary" restrictions. In Canada the step was justly regarded "as another step toward managed trade in steel similar to that which exists in shoes, textiles and clothing".[38] Canadian suppliers of ferrous metals whose share of the American market rose in 1984 to 3.5 per cent providing employment for 2,000 Canadian workers hardly felt safer than under the US quotas to which Canada, incidentally, responded for the first time over a long period by introducing its own steel import quotas. The tariff war undoubtedly strengthened Canada's intention to force the USA to conclude a bilateral trade liberalisation agreement with respect to iron- and steel products. Ahead lay the danger of import quotas on coniferous lumber and some fish products.

In addition to regular quantity restrictions (import quotas) still widely used in American trade practice, the contemporary arsenal of non-tariff means at the disposal of the American President and the regulating agencies under him includes two groups of contingency devices.

Countervailing duties are widely used against goods whose output in the country of origin was subsidised in some form by the state; there is, for example, an additional import tax intended to neutralise the effect of subsidies. According to the 1974 act such tariffs may be applied even to goods not subject to duties at all when imported to the USA, and the very concept of subsidy is interpreted so broadly that virtually any aid to Canadian producers by federal or provincial authorities may be interpreted as such.

According to Section 301 of the Trade Act, financial sanctions may also be applied to goods whose import to the USA has grown "artificially" (or the American export of which has declined) as a result of the policy or individual measures of a foreign state. This is another attempt at extraterritorial application of American laws (in addition to claims to regulate the activities of American transnationals' foreign subsidiaries). The result is a vicious circle: the more successful Canadian government agencies are in stimulating national production, the more probable are sanctions by the American side to restrict access to the US market by relevant products under the pretext of reduced American export to Canada (as a result of its partial ousting by the more competitive Canadian output).

The second group of non-tariff devices is used for selective restriction of import of products which cannot be said to have been government-supported in any way. US customs agencies have long since favoured using anti-dumping duties whose application has become even more free after the Tokyo Round—"a major backward step toward the very protectionism which the MTN was designed to guard against".[39]

The second group also includes exemptions under Section 201 of the Trade Act according to which the International Trade Commission is authorised to introduce temporary import quotas, additional tariffs, etc. on goods whose large-scale import, in the commission's view, seriously threatens national producers. Incidentally, there is no need to prove a causal relationship between import growth and harm to the producers; to initiate a case it is frequently sufficient to refer to the fact of significant import growth. Finally, a third device of this sort (incidentally, it is not permitted or recognised by the GATT) is adoption of measures against "unfair trade practices", for example, in the event of a complaint that some imported goods are infringing on patents belonging to an American producer.

Analysts of present-day trade policy point out that American protectionist measures can cause serious injury to Canadian producers even when they are not explicitly aimed against the latter. This happens, for example, when according to GATT directions contingency quantity restrictions are introduced in the form of global quotas and extended at the same time to Canadian suppliers, and also as a result of "deviation" of commodity flows to the neighbouring Canadian market (when, for example, import of Japanese colour TV sets, clothes or cars is restricted by "voluntary" quotas, the pressure on the Canadian market rises accordingly).

In violation of the GATT rules the US goverment continues to subsidise companies producing goods in the United States a considerable part of which is intended for export (the DISC programme) often competing against Canadian producers. Canadian exporters suffer a great deal from the various restrictive (discriminative) practices adopted in US government purchases by municipalities, states and the federal government. There is local legislation of the Buy American type operating in more than 35 US states directing the authorities to give preference to "their own" producers, if their prices exceed prices on imported goods within an established limit (usually from 6 to 12 per cent). The Surface Transportation Assistance Act enables preference to be given to the output of foreign companies assembled at their plants in the USA and not to highly competitive Canadian-made transportation vehicles even if the American content of the latter is significantly higher.

Finally, in October 1984 the Congress adopted an Omnibus Trade Act containing "an extraordinary combination of free-trade initiatives and protection measures".[40] Among the latter mention should be made, in particular, of changed criteria in judging the injury resulting from import, permitting wider use of contingency protection measures than provided for in GATT. One of the sections of the bill which, however, was not passed in the final draft and was to be discussed again in 1985 provoked particular concern in Canada. The section offered an extended definition of export subsidies which, if adopted, would enable the USA to seek protection from import of many Canadian semi-manufactured and finished goods on the grounds that they contained subsidised raw materials.

Such is the reality which S. Clarkson called "a double standard at work".[41] It is difficult to fight against it, particularly in view of the "different weight categories" of the contestants. Apparently, the correct approach is taken by those who believe that the way for Canada to overcome the increasing difficulties in gaining access to the American market is to achieve further trade liberalisation on a bilateral basis which, in the new conditions, means not so much the removal of tariffs on more goods as reciprocal renunciation of restrictive practices involved in using non-tariff protectionism. The urgency of the problem was pinpointed by E. A. Carmichael who stated in his latest work published by the C. D. Howe Institute that "Canada has become isolated as the only major industrial country, that does not have tariff-free access to a market of at least 100 million people".[42]

It is one thing to point out that expansion of the sphere of free trade is desirable (even if that freedom is fettered by numerous reservations as in the case with the Auto-Pact) and quite another to achieve specific accords in the form of bilateral interstate agreements.

Moreover, it is not to be forgotten that the GATT rules recognise as legal multilateral and even bilateral customs unions and free trade zones if they extend to the entire range of commodities, while at the same time rejecting in principle agreements of the Auto-Pact type providing for trade liberalisation in selected sectors. However, this is a technical point, as they say. Practice shows that when America is interested in sectoral liberalisation, it proves to be fairly easy to secure GATT's concurrence in the form of an exemption from the general rules.

The cardinal problem facing Canada is whether to embark on the road of talks on an all-embracing agreement with the

USA on trade integration or to keep on going in the direction of gradual spreading of bilateral liberalisation to new trade sectors promising the utmost positive effects and a minimum of destructive consequences, and thereby to new industries.

[1] *The Financial Post 500* (Supplement to *The Financial Post*), Summer 1985, pp. 68, 70.

[2] R. J. Wonnacott, *Canadian-American Dependence. An Interindustry Analysis of Production and Prices*, Amsterdam, 1961, p. 85.

[3] *Proceedings of the Standing Senate Committee on Foreign Affairs of June 7, 1977*, Issue No. 23, Appendix 23A.

[4] S. Clarkson, *Canada and the Reagan Challenge: Crisis in the Canadian-American Relationship*, James Lorimer Co., Toronto, 1982, p. 133.

[5] *Canada-United States Relations*, Vol. II, p. 68.

[6] S. Clarkson, *op. cit.*, p. 133.

[7] See, for example: E. Regher, *Making a Killing. Canada's Arms Industry*, Toronto, 1975, p. 59.

[8] *A New Course for Canada, Submission of the Central Executive Committee, Communist Party of Canada, to the Royal Commission of the Economic Union and Development Prospects for Canada, October 25, 1983*, published by Communist Party of Canada, Toronto, 1983, p. 3

[9] *Canada-United States Relations*, Vol. II, p. 91.

[10] S. Clarkson, *op. cit.*, p. 262.

[11] *Canadian Tribune*, October 1, 1984, p. 4.

[12] See: *Pravda*, March 25, 1985.

[13] *Canada-United States Relations*, Vol. II, pp. 94-95.

[14] Carl E. Beigie, *The Canada-U.S. Automotive Agreement: An Evaluation*, Canadian-American Committee, Washington-Montreal, 1970, p. 74.

[15] *Financial Times of Canada*, February 22, 1984.

[16] *Canadian Automobile Agreement, Sixth Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965*, Washington D. C., 1973, p. 1.

[17] *Canada-United States Relations*, Vol. II, p. 120.

[18] Quoted in: *Problems of Canada's Historiography*, Moscow, 1981, p. 283 (in Russian).

[19] S. Clarkson, *op. cit.*, p. 132.

[20] *The Christian Science Monitor*, January 21, 1981, p. B5.

[21] *Canada-United States Relations*, Vol. II, pp. 103-104.

[22] *Globe and Mail*, March 16, 1984, p. 8.

[23] S. Clarkson, *op. cit.*, p. 132.

[24] *Globe and Mail*, December 8, 1983; *Financial Times* (London), February 22, 1984; *The Financial Post*, June 9, 1984, p. 3.

[25] S. Clarkson, *op. cit.*, p. 138.

[26] *Time*, December 20, 1971, p. 23.

[27] See: *International Perspectives*, Special Issue, Ottawa, Autumn 1972, pp. 1-24.

[28] *The New York Times*, November 23, 1980.

[29] *Latinoamericana*, No. 12, 1981, p. 70.

[30] *Communist Viewpoint*, Vol. 13, No. 4, July-August 1981, p. 10.

[31] *Daily World*, June 18, 1981.

[32] *Report on the Nation* (Supplement to *The Financial Post*), Winter 1983/84, p. 87.

[33] For further details see: *Natural Resources in* U.S.-*Canadian Relations,* Vol. I *(The Evolution of Policies and Issues),* Westview Press, Colorado, 1980, p. 219-23.

[34] Harald Von Rieknoff, J. H. Sigler, B. W. Tomlin, *Canadian-US Relations: Policy Environments. Issues and Prospects,* D. C. Howe Research Institute, Montreal, 1979, p. 75.

[35] Peter Morici, *The Global Competitive Struggle: Challenges to th United States and Canada,* p. 94.

[36] S. Clarkson, *op. cit.*, p. 117.

[37] *The Economist,* September 8-14, 1984, p. 61.

[38] Edward A. Carmichael, *Policy Review and Outlook, 1985. Time for Decisions,* C. D. Howe Institute, Toronto, 1985, p. 58.

[39] S. D. Metsger, *The Anti-Dumping System and the Trade Agreement.Act of 1979,* 1980, p. 2. Quoted in: S. Clarkson, *Canada and the Reagan Challenge,* p. 118.

[40] E. A. Carmichael, *op. cit.*, p. 59.

[41] S. Clarkson, *op. cit.*, p. 122.

[42] E. A. Carmichael, *op. cit.*, p. 46.

Chapter Seven

The Conflict of Interests in Policy-Making in the Field of Trade Relations with the USA

In choosing a foreign economic policy and drawing up a relevant system of priorities, strategic and tactical means, the Canadian state inevitably has to take into consideration the existence of a dual structure of national industry. The thing is that large-scale highly specialised enterprises of mining and primary processing monopolies, and also the integrated North American sectors considered above, on the one hand, and a large number of enterprises of the secondary manufacturing industry of sub-optimal size, on the other, coexist in the country, developing side by side under the "umbrella" of government economic policy. The genetic difference between the two parts lies in their market orientation. The former enterprises arose and achieved the present high level due to the fact that their output was intended mostly for export to the USA, i. e. their production capacities were formed in view of the opportunities offered by a large sales market. The latter enterprises served narrow national, and often local markets of some area in the country, and were protected by tariff barriers.

What the two parts of the dual structure have in common is the marked presence of American companies: it would not be correct to say, for example, that the highly efficient export enterprises are mostly American, and the minor companies serving Canada's domestic market are exclusively national firms (or vice versa). The different position, dissimilar fates, and distinct interests of the two groups are determined not so much by the national identity of the company owners as by the market they work for. If they produce for the American market (or generally for export), their interests are in line with liberalisation of international trade whether within the GATT framework or on a bilateral (regional) basis. If they produce for the domestic market, emphasis is on preserving, and when possible, strengthening the status quo (by means of state financial support, new tax or other privileges etc.), and the liberalisation idea turns into a source of increased danger.

Such a clear-cut differentiation is, of course, a simplification, because it fails to take into account scores of intermediate hues and particular cases, but it is useful for understanding how complex may be the problem of choosing a foreign economic course facing the country, or, more specifically, the federal government.

No doubt, companies in both groups have a vested interest in gaining greater scope for development, expanding markets and strengthening their competitive positions. But the way to these objectives cannot be the same for all the companies. It turns out that the instrumental factor is the quite objective criterion of real extent of efficiency and competitiveness possessed by each production sector.

There exists an opinion, for example, that to secure high competitiveness for the resources sectors it would be sufficient to retain a lower exchange rate for the Canadian dollar.[1] Reduced tax levels and a reduction or elimination of American duties on semi-manufactured goods, as experts see it, would bring real prosperity to the resources sectors, since they would enjoy several advantages as compared to American suppliers, advantages having to do primarily with the raw material base in Canada.

The situation in the group of secondary manufacturing companies working for the domestic market is much more complicated: in a context of multilateral trade liberalisation under the GATT their market positions are gradually eroded, competition by foreign suppliers grows, while their own potential for modernisation is not great due to at least two circumstances—financial weakness (often in the case of even subsidiaries of US monopolies) and the absence of guaranteed access to a large market capable of justifying optimal-scale production.

The result is a vicious circle: the building of new defensive redoubts on the national border proves impossible, while progress in international economic relations does not improve but only makes worse the situation of such companies. As to complete elimination of tariff restrictions in trade, for example, with the USA, even gradually and only on a reciprocal basis, it "effectively ensures disaster by introducing the patient to a cure he cannot survive",[2] as John Shepherd of the Science Council asserted at a hearing of the Standing Senate Committee on Foreign Affairs. Some other treatment is needed to cure the common disease of the enterprises in this group—low efficiency—but it is not easy to find a universal recipe of this kind in general, and in Canada's specific conditions in particular.

The worsening of the competitive positions of the country's secondary manufacturing under multilateral liberalisation is clearly revealed in two mutually linked trends emerging in recent years: the decreasing share of new investments by American companies in their Canadian enterprises and expansion of production capacities in the USA taking into account the need to supply the Canadian market as well. These trends and their causes were already considered above. We mention them here because, perhaps, they are not just unfavourable symptoms for the country but the beginning of a new stage in Canadian-American relations. If formerly high tariffs had contributed to the rise and growth of branch plants in Canada, now there is a process of the country's "de-industrialisation", i. e. the return of manufacturing facilities to the USA, closer to the main markets and manpower reserves. One of the factors in this relocation of production within the North American region, as experts see it, is the gradual movement of large masses of population in the USA from the northeast to the southwest.

It would seem that a number of scholars and research groups have been working out what is known as the homespun growth model since the second half of the 1970s precisely in the interests of internationally inefficient companies in secondary manufacturing.[3] The main idea of the advocates of economic growth primarily with an eye to domestic conditions and needs goes as follows: we should put our own house in order first, and then think about "tariff disarmament". Internal reorganisation and rationalisation of the industrial structure are regarded as important preconditions for the country's extensive participation in trade liberalisation, whether multilateral or on a more narrow regional basis. The essential meaning of the recipes proposed boils down to improving industry primarily in view of the needs of the domestic market and available national resources and not with an eye constantly on export and external markets. The strengthening of the international competitiveness of Canadian output should be the side effect of the general strengthening of national firms and a rise in their production efficiency. Japan is cited as an example of outstanding successes scored on external markets following an indepth modernisation of its economy on a domestic basis.[4]

Those who provide a theoretical backing for this trend lay emphasis on further specialisation and, simultaneously, considerably longer production runs. Approaching the problem in purely capitalist terms, they pin large hopes on stepped up concentration and centralisation of capital. Their reasoning goes as follows: the country's market is narrow, even from 5 to 10 optimal-size enterprises are seldom guaranteed sales within the national borders; no one can force the enterprises to abruptly reduce the range of output while maintaining longer production runs; this means that a reorganisation of the sector's company structure is required. For the latter to become possible national legislation must not only put no obstacles in the way of mergers and takeovers (in principle, this is already the case in Canada) but in certain instances even encourage them and stimulate use of new and more flexible forms (partial mergers or semi-mergers when the companies pool their efforts in a certain field retaining independence in the rest). The country should reject the leftovers from anti-trust laws which do not correspond to its specific conditions and also, once and for all, put an end to the application of US anti-monopoly rulings to subsidiaries and branch plants of American transnationals in Canada. Then, logically, they would also take full-fledged part in reorganising industry with due account for Canada's national interests and under the supervision of government bodies.

The homespun development model makes inevitable the extension of the state's economic functions both in the form of direct participation in capitalist enterprise (particularly in the resources and transportation sectors of the economy) and by expanding institutions and improving tools of economic regulation, financing of research and development, etc.

In this case the provinces should abandon their parochial protectionism and contribute to deeper specialisation to raise the efficiency of the industrial system as a whole. Mutual understanding and a certain "division of labour" should develop at all levels between private business and state economic bodies. Energetic measures by employers and managers aimed at raising production efficiency should be supplemented with state efforts to create conditions making industrial restructuring easier and encouraging it.

The authors of this strategy disagree with their critics from among the advocates of free trade who affirm that state interference would lead to inefficient production "prospering", since a vigorous restructuring is hardly possible under such artificial hothouse conditions, and would harm Canadian consumers by narrowing the range of choice and so forth. In the latter case, for example, it is argued that the missing goods would be imported at prices not higher than prices of the present inefficient local production, and their presence on the country's domestic market would create the "healthy" competitive climate needed for efficient industrial restructuring. As to the state, in any case it should retain the right to decide which sectors to support and which to put in harsher conditions, what forms of support to use, whether to attract foreign capital to certain sectors and areas, how to stimulate small business or have a larger share of income from mining and processing minerals remain in the country and help to develop employment.

As to the favourite arguments of the "continentalists" supporting free trade ideas, most of them are convincingly refuted by advocates of the homespun model who frequently refer to historical and geographical parallels. Brouce W. Wilkinson, for example, indicates that in the years the UK has been in the EEC, it has not rationalised its industrial structure and still suffers from the excessive amount of foreign goods on its domestic market.[5] The "fresh wind of competition" has not shown its miraculous possibilities here. When the advocates of trade integration refer to the experience of Sweden, which allegedly participates in the West European industrial goods free trade zone without detriment for itself, they are reminded that Sweden never was a domain of foreign monopolies, which accounts for quite a different "entrepreneurial climate" in the country. As to the fact that state capital has been long dominant in many sectors of the Swedish economy, this may only serve as another argument for extending state enterprise in Canada and not against it.

It is to be specifically indicated, however, that the new doctrine is not generally oriented toward autarchy and does not challenge the objective process of regional integration. Deep-going division of labour in the North American economy and the growing mutual intertwining of the two countries' reproduction processes is the reality every serious economist must acknowledge in pondering over the choice of a national economic course. The question is how, under the circumstances, to manage a progressive transformation of the national economic structure by relying mostly on its own forces and as far as possible to exclude the negative consequences involved in a spontaneous rise of the regional economic complex. The authors of the "homespun model" do not oppose integration as such, but the idea of stepped up trade liberalisation which would make the process uncontrollable and lead to its snowballing. Underlying their recipes in the final count is the desire to lend greater vitality to the national economy, increase its ability to develop independently, and, thereby, strengthen Canada's position as a participant in regional integration and its chances of overcoming the latter's unequal nature.

New Sectoral Arrangements or a Comprehensive Integrational Agreement?

The issue of "tariff disarmament" has been on Canada's public agenda for more than a hundred years, being the subject of discussion if not in positive then in negative terms. Immediately following the adoption in 1879 of the protectionist National Policy, there was a marked polarisation of forces in the country in favour of and against this policy, for the setting up a free trade zone within the regional framework. The 1911 parliament election campaign was actually focussed on this same issue.

Customs tariffs between the markets of the USA and Canada reached their highest level in the first half of the 1930s after which they began to be gradually reduced both on a bilateral and a multilateral basis. In the 1974 Trade Act the US Congress directed the President to "enter into a trade agreement with Canada"[6] to remove trade barriers between the two countries on a reciprocal basis. Together with the 1975 report issued by the Economic Council of Canada[7] in the spirit of continentalism, this prompted public debate concerning the desirability of free trade with the USA. The previous peak in this respect was observed in 1964 when almost two thirds of Canadians polled favoured a close economic alliance with the USA. And, incidentally, this was the background against which the famous Auto-Pact was signed.

The third report of the Standing Senate Committee on Foreign Affairs was published in March 1982. Entitled *Canada's Trade Relations with the United States*, the report argued for an idea that was close to the hearts of advocates of further drawing closer to the USA, mainly that the signing of a comprehensive preferential agreement of free trade between the two countries was the best way to secure stepped up economic growth. The report asserted that "only a broad approach to free trade, with a sharing of benefits and costs across many industries, holds the prospect of success".[8]

Such a resolute and comprehensive initiative by the Senate committee did not meet with sufficient support in the country, but prompted the Liberal government to elaborate its stand on the future of Canadian trade. In August 1983 the public was offered an impressive set of two papers announcing, among other things, a course aimed at concluding new Auto-Pact-type sectoral agreements with the USA.

The principal paper, *Canadian Trade Policy for the 1980s*, said: "In a number of sectors (e. g., textiles, urban transportation, petrochemicals) there is significant scope for furthering the rationalization within North America on which the private sector has already embarked but which is now inhibited by trade barriers on both sides of the border."[9]

In February 1984 Canada's Minister for International Trade, J. Regan met his American counterpart William Brock in Washington. The ministers agreed on the sectors which were to be discussed at future talks (steel, farm machinery, urban transportation means and computer hardware and software), and working groups were set up. At the same time a "bilateral trade understanding" was signed providing for preliminary consultations in case one of the sides intends to introduce import restrictions capable of affecting the interests of the partner.[10]

At first the press was in raptures, but soon doubts arose.

There was the question of keeping future bilateral agreements in line with the requirements of the GATT. There were different opinions on whether measures involving individual sectors should be discussed separately or as a whole package. The American side proposed discussing new sectors (cosmetics and furniture), which was rebuffed in Canada. Experts estimated that liberalised trade in computer services would reveal the low competitiveness of Canadian companies and cost the country thousands of jobs and billions of dollars adding to the already enormous deficit of payments in non-commodity trade.[11]

Expert discussions were held at which J. Regan's deputy Sylvia Ostry was the chief advocate of sectoral liberalisation, a point of view argued against by prominent professors Abraham Rotstein, Bruce Wilkinson, Paul Audley, Senator Michael Pitfield and others.

Contradictions with the USA also grew sharper on the issue of extraterritorial application of American laws. In 1982, the Reagan Administration attempted to extend the policy of sanctions against the Soviet Union to activities by the American transnationals' subsidiaries in Canada, urging them to refuse to deliver equipment to build a major gas pipeline in the USSR. This had aroused a storm of indignation at the time, and in June 1984, practically on the threshold of a new meeting between the two ministers concerning sectoral liberalisation, a bill was submitted to the Canadian Parliament denouncing the legality of attempts to extend US jurisdiction to companies operating in Canada. In particular, it was pointed out to Washington that there was a contradiction between its claims that American subsidiaries should be regarded as national companies and its desire to dictate to them its own terms differing from Ottawa's foreign economic course.[12] The Canadian press also acutely criticised a bill submitted at the time to the US Congress intended to authorise unilateral measures to restrict import from certain countries (or with respect to certain groups of commodities) should there be a disbalance in American foreign trade with that country (or in a commodity group).

The situation of acute commercial-political contradictions in which the talks were resumed pointed once again to the advantages of the sectoral approach as compared with the much more far-reaching and irreversible decision concerning complete trade integration. That is what is propagated by Peter Morici who believes that sectoral liberalisation "would provide many of the benefits of full free trade while actually achieving only free trade" (i. e. avoiding the far-reaching consequences involved in complete trade integration, including political ones). And since "trade liberalisation is an iterative process, piecemeal at best",[13] apparently, the sectoral agreement as the classical example of partial integration in its most adequate form.

Generally speaking, Canada is hardly ready to risk reducing its national market to the status of an ordinary periphery segment of a largely alien continental market sphere completely unaccountable to its regulating bodies. The favourite argument of the advocates of complete trade liberalisation with the USA is known to be the idea (that may be true in itself) that elimination of trade barriers between the USA and Canada would enable the principle of comparative advantage to be more fully used in locating industry within the region. The question is whether this would be to the advantage of the junior partner which Canada undoubtedly is. Even so, breaking its way through tariff and other barriers, this principle underlying the activities of the American transnationals has resulted in an unproportionately high share of mining and primary processing industries in the national economy. It is well known that, all other conditions being equal, primary processing tends to be attracted to sources of raw materials and energy, while secondary manufacturing tends towards the market, above all, and that market would still largely be American. So Canada would hardly gain a larger share of North American manufacturing than it has now. After all, "The price for admission to the American market would be the economic policies needed to put the Canadian industry in a position to compete there".[14]

In the public debate of the mid-1970s the then American Ambassador to Canada, Thomas Enders, criticised the ideologists of continentalism for their desire to provide private business the opportunity to secure a distribution of benefits and losses regardless of national interests.[14a] This apt remark made by a well-informed commentator adds an important point to the understanding of the ideology of continentalism. It is revealing that the basic content of that ideology is described in approximately the same terms by the authors of one of the most serious works on

American-Canadian relations: "As a minimum, continentalism refers to the willingness of both parties to allow normal market forces rather than superordinate national economic or political strategies to determine trade flows between the two countries."[15]

Capitalist rationalisation of production may undoubtedly lead to a national drama if the chief commercial-political leverage on economic processes has been snatched out of the state's hands. No incentives—tax and other—for the companies operating in Canada to expand local production facilities and increase their own research and development, no preferential buying policies by federal and local government (its possibilities would be also restricted if the agreement on a free trade zone were to be out into effect), and no control over the activities of the foreign monopolies and their production and sales policies, over mergers and takeovers and so on are capable of forcing private business to take into account abstract considerations of the Canadian people's benefit to the detriment of its own commercial interests.

It is not to be forgotten, of course, that the problem of trade integration with the USA has an extremely important political dimension having to do with the threat that Canada could lose its state independence, its national sovereignty being eroded not only with respect to natural resources but also in the sphere of major social and political decision-making.

The more realistically minded members of government and business circles realise, however, that even the restricted sectoral approach to bilateral trade liberalisation involves considerable dangers for the country. In theory, of course, this approach enables the liberalisation to be extended at first to those sectors where the best objective conditions have emerged and where it can bring Canada the most positive effect. However, this presupposes US agreement, or to be more precise, the interest of American monopolies in mutual liberalisation. In addition, such an interest could be linked to a greater extent to prospects for tariff-free deliveries from the USA to Canada and not vice versa, and in certain instances could further encourage the transfer of manufacturing to the USA. At the end of the 1970s, speaking at a hearing held by the Standing Senate Committee on Foreign Affairs most of whose members favoured further trade integration, the Chairman of the Chemical Producers Association said that "Canada would be at a serious disadvantage in a free trade environment", and a spokesman, for Du Pont of Canada even maintained that "free trade would result in ... an 'inevitable slow death' to the company".[16]

There is no denying the fact that in the sectors where a largely liberalised exchange of goods (considered above) prevails today, most Canadian companies have a vested interest in completely doing away with tariffs (as in the case of farm machinery) and with all sorts of non-tariff restrictions on their deliveries to the USA. The example of the automotive industry clearly shows that undesirable consequences for the country can arise even if special reservations remain in force demanding from companies to maintain production at a certain minimal level (in this case a lower share in North American manufacturing of parts and accessories for cars). If in the course of further liberalisation Canada was required to abandon such demands restricting the free play of market forces, the situation would completely pass under the control of the American monopolies who would act according to their own interests above all and would not bother about balanced economic development in the country they operate in.

Bilateral trade liberalisation could also bring Canada considerable advantages in a number of new sectors included on the agenda of the talks. This concerns, for example, ferrous metal trade, where competitiveness of national companies is very high, and trade in urban transportation means (suffice it to mention the successes scored by the national company Bombardier Corp. in bidding for deliveries of cars to the New York subway). Continental deals are also craved by companies in the relatively young petrochemical industry, which in the early 1980s "was in the process of transformation from defensive inefficiency to aggressive competitiveness".[17] Even today, as they overcome the growing obstacles on the tariff border Canadian petrochemical products are widely circulated on the American market, but protectionist measures threaten to bar access to the USA virtually at any minute. Being based on technologies intended for mass markets and capable of satisfying not less than 10 per cent of the subcontinent's needs in petrochemical products even now, Alberta-based Canadian companies are in the position of a gambler with high stakes but whose chances of winning are unknown.

In this context it is important to point out the following. Having carried through unilateral liberalisation of reciprocal trade in farm machinery, both sides in their time referred to the need to help their farmers. In the signing of the Auto-Pact, apparently the decisive role was played by the fact that all the regional production was already American in capital if not in location. The agreement on military hardware was of great political importance to the Americans, because it was intended to involve Canada in US and NATO military-strategic plans even more deeply.

At the same time it is not so easy to indicate new sectors the arguments in favour of whose integration are so convincing from the standpoint of the USA (transcending considerations of simple efficiency). No wonder, then, that the opinion is widespread in Canada that the USA would agree to new partial integrations only in two cases: if it is judged that this would entail complete bilateral trade liberalisation in the near future (the advantages of which for the USA would be difficult to overestimate in view of the real balance of power); and if in exchange Canada would offer American transnationals reliable guarantees, recorded in interstate documents, to retain and extend their access to the country's natural resources—energy, water and mineral deposits, above all. Incidentally, S. Clarkson, for example, believes that inclusion of petrochemical products in the next round of sectoral talks, to say nothing of the signing of an agreement to Canada's advantage, would be possible only provided the American side were offered some additional compensation such as access to Canada's fresh water resources or import of Canadian natural gas on favourable terms.[18]

In an interview in May 1984 an influential Canadian expert on economic policy, Carl E. Beigie, supposed that if Reagan were re-elected he would ask Canada: "Look, we are prepared to give you the best transitional agreement you can get, but we want you to make up your mind on some total free trade agreement or sectoral free trade. If it's sectoral free trade, then we haven't got time."[19]

Liberalisation of electronics and computer services trade would have of course brought the USA obvious benefits. In Canada this sector is one of the most vulnerable to foreign competition, so Canada would apparently sign such an agreement only provided there were protective reservations in it.

Incidentally, computer services were included in the sectoral package at the talks as the weight which would tip the scale and make the terms acceptable to the American side.

Yet, introduction of a liberalised trade regime inevitably involves both short-term losses for Canada (malaise during the period of adaptation to the new conditions) and more far-reaching consequences of a structural nature whichever sectors it concerns. In particular, it is quite likely that there would be a more pronounced trend towards relocation (mentioned above), i. e. bringing most of the companies' production facilities out of Canada in order to be closer to the principal sales markets in a context of free continental trade. And America also hopes to gain an advantage in view of its firms' higher efficiency due to larger-scale production. "Just as there's no free lunch, there's no free trade", was what Abraham Rotstein had to say on the subject.[20]

It might very well turn out, as the Canadian Communists have warned, that further liberalisation would create "jobs in the United States at Canada's expence". The extension of free trade into other branches "would put even larger sections of the Canadian economy under complete US transnational control and would further undermine Canada's sovereignty and independence"[21]

In the same Liberal government paper where the idea of sectoral liberalisation was presented as one of the aims of the country's foreign economic policy, it was admitted: "The free-trade option has been a contentious issue throughout Canada's history, due less to economic considerations than to issues of sovereignty and self-determination".[22] Objectively integration in separate spheres paves the way for a comprehensive economic alliance with the USA which back in the mid-1960s was called a "catastrophe for Canada" by the "moderate nationalist" Walter Gordon.[23]

Meanwhile, everything seems to indicate that Canada has firmly taken this road. The development of events in the direction of new Canadian-American sectoral accords is all the more probable because, since autumn 1984, the government has been run by the Progressive Conservative Party which the Canadian Communists describe as "the party of the transnational oil corporations, the party of big business, the party of U.S. imperialism in Canada, prepared to accommodate themselves to the pressures of U.S. imperialism".[24] It appears, however, that the movement in this direction will not be fast even under the Mulroney Government and the Reagan Administration in the USA. In any case the Canadian press predicted that there would be at best two new sectoral agreements in 1985-1986, most likely in the most uncontroversial spheres, from the viewpoint of Canada's interests, i. e. farm machinery and ferrous metals.

Finally, it is to be noted that the idea of a comprehensive integrational agreement has not at all been buried. After the Conservatives had come to power influential business organisations such as the Canadian Manufacturers Association and the Canadian Export Association issued a statement saying that "Canada should seek more comprehensive trade liberalisation".[25] At about the same time, in autumn 1984, the Business Council of National Issues proposed concluding a general agreement with the USA in principle laying down the common objective of increasing reciprocal trade as much as possible. As the Council emphasised, such an agreement should be combined with continuing talks on sectoral liberalisation. The aim of the agreement was not to introduce free trade zone immediately but to reach an accord in principle to further draw closer in trade step by step, by means of mutual consultations and specific decision-making in the interests of both sides. As an influential Canadian newspaper wrote on the subject, "This is obviously the kind of agreement that could be a living force or a dead letter, depending on whether the partners infused it with purpose or let it wither".[26] In any case in the mid-1980s the idea of a general integrational agreement was still under consideration and the search went on for forms involving the least obligations and consequences.

Advocates and Opponents of Further "Tariff Disarmament"

The public polemic concerning the future of Canadian-American relations involves a very complicated, extremely motley array of forces which, moreover, is constantly changing under the impact of numerous factors. In order to describe the range of advocates and opponents of trade integration even in the most general terms, one has to rely on the method of abstraction, deliberately simplify reality, and drop the finer points so as to reveal the most important things in the balance of power in the country and on the subcontinent.

It is to be indicated right away that on the whole there is much greater consensus on the subject in the USA than in Canada. In the USA, of course, there are also some sceptics, and even outright opponents of drawing closer to Canada, but these obviously constitute a minority; besides, more often than not they do not have a pretext, a particular desire or opportunity to make a loud noise. Perhaps the main difference between the USA and Canada is that in the former country there is no ongoing debate concerning the future of the region. In public opinion polls the question is not even asked whether integration is desirable or not, but only the course of events regarded as probable at the given moment is considered. Thereby, it is tacitly assumed that America is ready for any alliance with its northern neighbour, and it is up to the Canadians to ponder and act.

This is a result of the difference in scale: what is objectively a nationwide problem in Canada, a matter of life and death, in the USA only seems to be a more or less desirable course of events for certain people or social groups. The advantages for the stronger partner in integration are patently obvious, as is obvious the fact that it is impossible to solve the problem of further continental convergence on a unilateral basis. As a result, paradoxical as it may seem, integration is considered to be *de facto* a Canadian affair, although the USA in the person of its private monopolies has always been the source of the impulses towards integration and the active side in the process.

Apparently, the most influential and powerful force vying for trade liberalisation and further drawing closer to the USA are the monopolies in the economy's resources sector. Under the existing structure of the Canadian economy and private ownership resources companies in Canada will undoubtedly seek a continental deal with the USA regardless of their national identity,[27] Canadian economist and politician J. Laxer noted in the early 1970s. Such companies are to be found in all areas of the country, but territorially their influence prevails in the Far West, in Alberta and British Columbia. They also exist, of course, in the central area (Ontario and Quebec) where they are the oldest and frequently very powerful monopolies. Nevertheless, this area is the domain of opponents of tariff disarmament, because it contains most of the secondary manufacturing facilities relying on high tariff barriers. There are no rich mineral deposits and no developed manufacturing sector in the small Atlantic provinces (Nova Scotia, Newfoundland and New Brunswick). What moods prevail here? On the whole they are pro-American. This is due to the fact that the residents of these provinces believe that *they* are paying for the federal government's protectionism as a result of which rich Ontario and Quebec prosper and force them to buy their expensive and not always high-quality products.

The intersecting of opposing forces is extremely complex in the central area. Large-scale efficient operations in the resources sectors, enterprises of the automotive and farm machinery industries already enjoying a largely liberalised trade, on the one hand, coexist here with hundreds upon thousands of companies in other sectors of the manufacturing industry with their sub-optimal size enterprises seeking to preserve the status quo, on the other. Many of them are national in capital, although in this case this is not the decisive feature. There are quite a few all-Canadian companies among advocates of free trade, while the subsidiaries of American monopolies usually favour retaining protectionism which prompted them to come to Canada in the first place.

Nevertheless, particular cases aside, the typical advocates of trade liberalisation with the USA are large-scale companies in the resources sectors usually closely linked with American-owned enterprises in the western provinces. The typical opponents are small national firms in secondary manufacturing mostly operating in the east of the country in the zone bordering on the USA.

A good deal has been said above about the particular "division of labour" existing between foreign industrial monopolies and national capital. From the very beginning the latter was formed mostly outside the industrial sphere, in associated sectors—in trade, the services, credit and finance, transportation, etc. Canadian capital and particularly its top monopolies have long been used to extracting benefits from the presence in the country of the subsidiaries of American monopolies constituting the hub of national industry. In addition, these are mostly companies consuming rather than producing finished industrial products, which makes them interested in cheaper goods circulating on the Canadian market as a result of elimination of customs duties, reorganisation of national enterprises and so on. Thus, a significant part of national capital and, apparently, practically all monopoly capital, are more interested in further drawing closer to the USA than in an abrupt turn of the economic course towards independent and more autonomous development of national industry. The non-monopoly bourgeoisie in secondary manufacturing is an exception: it is the weakest part of the industrial structure but hardly a docile "silent minority" when it concerns discussions about the country's future.

The attachment of the upper crust of monopoly capital to the idea of far-reaching trade integration with the USA was confirmed by a pre-election poll of managers of the country's major companies and banks conducted by *The Financial Post*. Among the managers who returned the questionnaire nearly half (49 per cent) were ready to approve a Canadian-American agreement on complete liberalisation of reciprocal trade.[28] Canadian Communists believe that capital's permanent desire to maximalise profits underlies this position. The above-mentioned analytic document of the Communist Party of Canada states: "Absorption in the guise of free trade and continentalism is advocated by certain right-wing elements of big business in Canada who believe that their profitability will be thereby increased".[29]

Another "demarcation line" may be drawn within political parties, among MPs, through university departments, company boards and banks. This concerns the so-called liberals and *dirigistes*, in other words, opponents and advocates of state interference in the economy. Finer points and particular instances are to be found here, but a certain overall trend may be singled out. It is that adherents of neo-liberal (and in the latest version, neo-conservative) views on the economy, whether businessmen, government officials or professional politicians, first of all, tend to be more attracted to America with its traditions of non-interference in the free play of market forces, and second, regard "tariff disarmament" as something natural and even inevitable. They see it as restoration of the normal situation in the regional economy rather than an abrupt and largely artificial change of the existing national economic mechanism. As to the *dirigistes*, their thoughts are mostly forcussed on problems of improving that mechanism, raising its effectiveness in terms of protecting the interests of local companies and production efficiency within national bounds.

Neither is it easy to reveal the actual array of forces along party and political lines. As one Soviet study put it: "Frequently opposing views coexist in the two traditional parties of the Canadian bourgeoisie (Liberals and Conservatives) reflecting inhomogeneity of the Canadian bourgeoisie itself and different attitudes of its factions to foreign capital".[30] Nevertheless, certain differences exist between the party platforms, of course, and there seems to be a definite polarisation of political forces with respect to the acute problems facing the country in the 1980s.

Canadian researcher Richard D. French described the position of the Liberal Party (now in the opposition) concerning the country's economic future in two words—nationalist and centralist.[31] Indeed, the contemporary Liberals under, and after, Trudeau have on many occasions expressed their intention to widely use the instruments of state regulation to better provide for national interests and strengthen the country's economic independence. Their actions, however, often contradict their words, and the federal government's economic course while the Liberals were in power was marked by inconsistency and eclecticism. One authoritative Canadian study noted that the Liberal Party "appears to oscillate periodically between nationalism and continentalism".[32] While most of its policy-making catchwords, as well as the everyday statements by its officials, have a nationalist ring, many specific measures and decisions are objectively in the mainstream of continentalist ideology. During the last few decades this inconsistency was displayed in energy policy, in the terms under which foreign capital operated in the country, and in the commercial-political sphere. The fate of the above Third Option policy is particularly revealing in this respect. It is to be noted, for the sake of fairness, that in Canada itself Trudeau and his entourage were accused not simply of inconsistency but also of latent pro-Americanism, a deeply inbedded continentalist orientation which showed itself every time really important economic decisions were taken.[33]

R.D. French gave an equally short description of the Conservative Party, expected to remain in power for a long time: "continentalist and decentralist". During the short period Clark's cabinet was in power in the late 1970s, the Conservatives not only showed they were opponents of federal government interference in the economy of the provinces but also were ready to draw closer to the USA along all the basic lines, including a field that was a particularly urgent concern of the US transnationals, that of access to Canadian energy resources. It is to be remarked that the array of party forces considered above only concerns the latest period in Canadian history. During many years, from Mackenzie King to Lester Pearson, the economic course of the Liberals was continentalist, and in the 1960s the Diefenbaker Conservative Government undertook a number of anti-American actions and voiced its support for the ideas of pro-Canadianism. More than a year before the last elections, but after Mulroney had become the party leader, the Canadian Communists pointed out that "The Conservative Party seems bent on abandoning most if not all protection for Canadian industry through wide-ranging free trade agreements with the USA. It is a policy which can only exacerbate Canada's economic problems".[34]

The Canadian social-democrats, the New Democratic Party, is described either in neutral terms (the third force in Canadian politics), or in pejorative terms (as trailing the Liberals), or with a hint of horror (radicals or even reds).[35] It all depends who is speaking and which part of the party is referred to, because even today it does not constitute a single whole and, even after the really radical Waffle group was expelled, the party has a centre and a more intolerant left wing. If its stand on the issue of the presence in the country of US capital and prospects of North American integration were to be summed up, it would probably be appropriate to apply the words moderate nationalism (as opposed to the radical nationalism of the former Waffle group headed by prominent economist and sociologist Melville Watkins).[36] The "nationalism" of the NDP is revealed, above all, in its opposition to the idea of collaborating with the USA in using the country's natural resources and demands for more effective control over foreign investment. It is "moderate" because of its fear of the growing economic role of the federal government and because it virtually excludes nationalisation from the means used to fight for the return of control over the country's economy (while Watkins and his followers proposed transferring the entire industrial property of the American transnationals in Canada to the state).[37]

The prominent statesman and businessman mentioned above, Walter Gordon, who laid the ideological basis of moderate nationalism in his books *Troubled Canada* and *A Choice for Canada*,[38] may be regarded as the ideological precursor of social-reformists. As the author of the idea of buying back foreign property in the country, who is associated with the rise of the Canada Development Corporation and the first steps in government control over foreign investment, Gordon always opposed an economic alliance with the United States regardless of the terms.

The modern ideologists of Canadian nationalism, among whom it is necessary to single out Abraham Rotstein, a professor of political economy at Toronto University, and prominent economists and sociologists Stephen Clarkson and Melville Watkins, also lay emphasis in the polemic with advocates of tariff disarmament on the political consequences of such a step. They deplore the cynical fatalism of the American diplomat George W. Ball who had predicted coolly back in the 1960s "a progressively expanding area of common political decision" (i. e. the imposition of US dictate—*A.B.*) under the impact of "commercial imperatives" leading to "substantial economic integration".[39] The scholars and public figures who adhere to this trend have done a great deal to expose the invalidity of hopes that free trade with the USA would lead to the prospect of a stronger and more independent Canada and have criticised attempts to establish a direct relationship between deeper economic integration and growth of political independence (the idea is that a strong and healthy economy serves as a firmer basis for political autonomy than a weak and ailing one). Such "optimists" believing that trade integration with the USA would not threaten the country's political future make up, for example, a majority of the Canadian-American Committee (one poll showed that they constituted 59 per cent of the Canadian members and 94 per cent of the American members).[40]

The leadership of most Canadian trade unions takes a cautious and, on the whole, sceptical approach to prospects of North American integration. Up to the mid-1970s international unionism was the prevailing type of trade union organisation in Canada, which had its impact on the overall orientation and slogans of the country's trade union movement. However, by now the situation has changed significantly as a result of intensive growth in membership of autonomous Canadian trade unions and several large locals leaving international (North American) trade unions. The new trend of organisational de-integration in the North American trade union movement has been accompanied by a growing support for the government policy of regional development, raising the efficiency of national industry and so on as distinct from bilateral trade liberalisation.

Finally, it is to be pointed out that the Communist Party of Canada, a consistent advocate of deep-going social and economic changes in society along anti-monopoly and anti-capitalist lines, is in the vanguard of the patriotic forces actively favouring stronger national independence, restricted American presence in the country's economy, and resolute steps to overcome Canada's unequal, largely subordinate position in the system of the regional division of labour. The emphasis is on far-reaching political consequences of deeper integration with the USA and of possible agreements to this effect. In particular, the Communists have repeatedly indicated that, in addition to social and economic costs, integration involves growing dependence on US imperialism in the foreign policy sphere, and a more direct part in the policy by means of which the USA seeks to secure military superiority over the Soviet Union and impose a Pax Americana on the world.[41]

Conservatives in Power and the Increasing Trend Towards Continentalism

In the course of the 1980 election campaign the Liberal Party headed by Pierre Eliot Trudeau waged a struggle against the Conservatives, who had come to power less than a year earlier, on the basis of a sufficiently clear-cut economic programme differing sharply from the platform of the ruling party on many important points. The policy of the Clark Government aimed at curtailing state interference in the economy and drawing closer to the USA was confronted by a directly opposite course—further development of the state's economic functions and Canadianisation. Voters clearly showed their support for the Liberals by handing Trudeau a mandate to implement that course into life and opening the way for such serious measures as the National Energy Programme adopted in the autumn of the same year.

Canada slipped into the cyclic crisis as it always had, in the wake of the USA, but this time there was an extremely high wave of anti-American feelings in the country. As it was already pointed out above, the crisis of the early 1980s once again clearly demonstrated the common economic destinies of the two countries and the remarkable parallel movement of their basic indicators, and simultaneously bred Canadian disappointment with respect to alternative markets. At the time Canada recovered from the crisis, moods in the country were quite different: the enthusiasm for Canadianisation fell abruptly and a new round of the waltz for two began to the music of a whole orchestra of continentalists.

The end of 1983 brought reassuring economic results, although they were not as good as in the USA. The press focussed attention on preparations for Canadian-American talks on sectoral liberalisation at the ministerial level. Judging from the polls the popularity of the Liberal Party was at a very low ebb: in February 1984 only 36 per cent of the voters were prepared to vote for Trudeau and a whole 48 per cent for the new leader of the Conservatives (only slightly less than actually voted for the Tories in September).[42]

The people were clearly tired of the Liberal Party, irritation had built up in the masses of the population against the party and personally against its leader, Trudeau. Except for a less-than-year-long interval the Liberals had been in power for 21 years, 16 of them under Trudeau. Neoconservative moods had grown immensely in business circles and there was an increasing protest against the *dirigiste* policies pursued by the Liberals, who were accused of driving away foreign investors and conserving inefficient manufacturing which relied too heavily on state support and tariff protections.

Changes were needed, and in late spring Trudeau announced his intention to leave the post of leader. Public opinion immediately responded by a rise in the popularity of the Liberal Party (in April 1984, 46 per cent of the voters favoured the Liberals without Trudeau and only 40 per cent were for the Conservatives).

After two rounds of voting the convention of the Liberal Party elected John N. Turner to be its leader; Turner had been Finance Minister in the 1970s in one of Trudeau's cabinets and had left the post as a result of differences with the Prime Minister. In July the Liberal Party consolidated its leading position, and Turner was 11 percentage points ahead of Mulroney.

Yet in less than two months the advantage was lost, and the Liberal Party suffered the most shattering defeat in its history. Of the 282 seats in Parliament it won only 40 (as against 147 after the 1980 elections), only 10 seats more than the New Democrats, while the Progressive-Conservative Party won a record number—211 (it had only 103 in 1980). The outcome of the elections was decided mostly in Quebec and Ontario whose population firmly sided with the Conservatives, or rather supported Mulroney against Turner. Thus, in Quebec the Conservatives received 58 seats out of 75, while after the 1980 elections they had only one (!) seat here. In Ontario the Conservatives won 67 seats (as compared to 38 four years earlier). And, of course, the Western provinces traditionally gave almost all their seats to the Conservatives and the New Democrats (now all 20 MPs from Alberta are Conservatives, British Columbia gave 20 seats to Mulroney and 7 to the New Democratic Party and its leader Ed Broadbent).[43]

Of course, the burden of the Trudeau years was too great for Turner and the opinion that the Liberal Party was punished "for all its past sins" was partly justified.[44] Yet, most likely it was a personal defeat of the new but very politically experienced leader of the Liberals fighting for votes against the young and energetic bilingual Irishman Mulroney, who comes from the small Quebec town of Be-Camo. Changes were expected from Turner; when they were not forthcoming, the disappointed voters turned to Mulroney. When the election platforms of the rival parties can hardly be distinguished, the personal sympathies and antipathies which the voters feel for their leaders acquire decisive importance. In September 1984 people were tired of the Liberals, felt an antipathy for them and were disappointed personally with Turner, while Mulroney had attracted the attention and imagination of the nation for more than a year.

A large role was apparently played by the almost identical social images of the rivals. Both had come from small towns and graduated from provincial universities. Both had studied law and made a career in the world of business. Both were corporation presidents and members of a dozen company boards. Both were known as protégés of the Establishment expected to be slightly to the right of Trudeau.[45] Both went into politics relatively late in life, experiencing considerable setbacks and finally succeeding, although they regarded politics as a hobby rather than a profession. Under the circumstances it was easy for the voters to give preference to the "grey suit and red tie" of the smiling 45-year-old Mulroney as compared to the "blue suit and red tie" of the always worried 55-year-old Turner.[46]

It was all a joke, of course. But what could the voters do but compare smiles, rhetoric and the clothes of the candidates if the social and economic platforms of the rival parties were indistinguishable? Yet economic issues proved to be in the focus of public attention during the election campaign. On no issue of the economic agenda were the positions of the leaders of the two leading bourgeois parties opposite; in fact, their positions ranged from completely identical to having insignificant, tactical and often simply terminological differences.[47] The platform of the New Democrats was quite similar as well, offering mostly the same set of economic recipes (excluding the intention to increase military expenditures) but in stronger terms and couched in leftist expressions. The leader of the "third party", Ed Broadbent, spoke well in the TV debates and skilfully emphasised the anti-Reagan and anti-confrontation bias of the New Democrats in foreign policy. Many observers believe that the relatively successful showing of the party in the elections (it lost only two seats) was a personal achievement of its energetic leader who did have some charisma.[48]

The employment situation seemed particularly intolerable against the background of the cyclic boom: the rate of unemployment had declined only by 1 per cent as compared with the crisis level and was still expressed in two-digit figures (over 11 per cent in the summer of 1984 as against 7.5 per cent in the USA). For that reason all three parties proclaimed that fighting unemployment would be their top priority task if they won the elections. Although the need to halt the growth in the budget deficit was unanimously acknowledged as the second most important concern of the future government (it became clear in the summer that under any government the deficit would substantially exceed April's estimates), each of the leaders proclaimed an ambitious programme to fight for new jobs. The total sum of the Liberals' new financial commitments (i. e. expenditures in addition to the programmes announced in the spring budget) was estimated at 4,500 million dollars. The sum promised by Mulroney, who was more cautious, was 3,800 million dollars, while the New Democrats (who had nothing to lose since they were not counting on an overall victory) declared that they intended to increase state expenditures under economic programmes by a whole 6,500 million dollars. Broadbent went much further, promising to revise the tax system with the aim of greatly easing the burden for the population and taxing large incomes more strictly and on a larger scale. It is interesting that in his desperate attempts to raise the Liberals' chances by taking up some popular social and economic slogans from his opponents, a bit here and a bit there, Turner borrowed from the new Liberals the idea (in an abridged form) of a minimal tax on personal incomes exceeding 60,000 dollars a year, which was intended to close tax loopholes and provide the federal treasury with at least 13 per cent of the real sum of these incomes. As to Mulroney, he only supported Broadbent's idea in principle, assuming no specific obligations in such a sensitive issue as tax reform.

Turner took up quite a few election slogans from his chief rival. Thus, he made obviously conservative promises to weaken control over foreign investments (without eliminating the Foreign Investment Revision Agency (FIRA) which, incidentally, Mulroney did not touch either) and to revise some parts of the National Energy Programme (replacing the Petroleum Incentives Programme with a system of tax breaks; taxing oil firms on profits rather than revenues, thus ending the Petroleum and Gas Revenue Tax; adopting market-sensitive pricing for exported natural gas; and finally, abolishing the rule according to which the government had the right to buy up to 25 per cent of the stock in any oil and gas company operating on federal land).[49] It was Mulroney who also advanced the hardly conservative idea widely advertised during the election campaign that high interest rates were one of the chief obstacles in fighting the budget deficit and that, in order to lower them, it was necessary to still further lower the exchange rate of the Canadian dollar (in the summer of 1984 it was rated at 75-77 US cents). In their turn the Conservatives borrowed the traditionally Liberal call to support small business. It is significant that despite the similarities between the two parties members of monopoly circles firmly backed the Conservatives and pinned great hopes on Mulroney.

The above-mentioned poll conducted among managers of major companies and banks showed that 88 per cent of those who filled in the *Financial Post* questionnaire intended to vote for the Conservatives, 79 per cent had a favourable opinion of Mulroney (only 40 per cent had a similar opinion of Turner) and the same 79 per cent favoured doing away with FIRA. At least 80 per cent believed that the economy would be better run under a Conservative Government (81 per cent), that there would be less state regulation (80 per cent), a better energy programme would be elaborated (82 per cent), there would be progress in relations with the USA (84 per cent), and federal-provincial relations would be improved (80 per cent). However, only 68 per cent of the managers thought that Mulroney would succeed in reducing the budget deficit, 44 per cent that inflation would be curbed, 53 per cent that the needs of small business would be better seen to than under the Liberals, and only 35 per cent that the Conservatives would achieve success in the field of international relations (13 per cent believed this would not be so and 51 per cent expected no changes in this field).

It would be a mistake to judge these answers at their face value. Thus, only 57 per cent of the managers admitted that the Conservatives were better able to take into account the needs of Big Business (40 per cent preferred the vague answer that they did not expect changes). It was clear, however, that the sympathies of the financial elite remained on the side of the Conservatives, for whom 74 per cent of the managers polled had voted in 1980.

In the course of the election campaign Mulroney sharply criticised the economic policies of the Liberals, both domestic and international. Among the main sins he attributed to Trudeau and his followers were their unreasonable nationalism, excessive *dirigisme* and deficit financing, and also confrontations with the provinces on the issue of their economic sovereignty, confrontations which had slowed down preparations for a number of megaprojects on the Atlantic shelf and in the country's western areas. As he put it, "Trudeau's nationalist policies drove $50 billion of direct investment out of Canada, forced monetary officials to impose high interest rates on the nation to attract costly inflows of debt capital, and destroyed foreign confidence in Canada as a place to invest".[50]

In the words of a *Newsweek* commentator, "The outcome was good news for the Reagan administration" because "Mulroney's government will be pro-business and proAmerican".[51] In particular the USA expected the Conservatives to "de-regulate" certain sectors and spheres according to the recipes of Reaganomics. Washington warmly approved of Mulroney's pledge to increase military expenditures in the next few years by at least 6 per cent a year in real terms. The rulers of the American transnationals intended to grab a large slice of the cake when some enterprises belonging to the Canadian state would be sold to private companies.

It is interesting that a weakening of regulation and a departure from the Canadianisation policy would apparently have occurred even if Turner had won. In his pre-election speeches, like Mulroney, he praised free enterprise and promised to create a new climate of trust between business and the state, put an end to economic nationalism, attract foreign capital to take part in Canadair and De Havilland and so forth. But in this question as in other ussues Mulroney was more consistent and went further. Taking into account that in May 1984 public opinion polls registered a new increase in the number of people favouring expansion of foreign investments (up to 67 per cent as against 62 per cent a year before), the leader of the Conservatives promised to take decisive measures to attract American and other investors, reconsider FIRA's mandate and rename it Investment Canada, change the status of the Canadian Development Investment Corporation to relieve the state of a number of weak and inefficient companies by transferring them to private hands. Only the sphere of banks and insurance, communications and mass media as well as uranium mining and power engineering were declared a zone where the activities of foreign capital would be closely monitored.

Admittedly, it is to Mulroney's credit that after coming to power he set about fulfilling some of his election promises quite energetically (Turner had pedantically counted that he made 338 promises). Government economic policy tended towards de-regulation according to the Reaganomics model. In the field of price policy it was intended to remove controls over oil and natural gas prices and eliminate the right of crown corporations to acquire 25 per cent of the shares in any projects involving energy resource exploitation of federal lands. A special tax on the incomes of oil companies was abolished and the subsidies for national firms in the oil and natural gas industry were replaced by tax incentives.

The draft mini-budget (November 1984) provided for cuts in state outlays on certain economic development programmes and curtailing subsidies and credits for crown corporations. At the same time state allocations for job creation programmes were increased by a billion dollars. It is interesting to note that, as opposed to their Liberal predecessors, the Conservatives forecast a rise in federal expenditure and larger budget deficits in 1985-1988. According to the estimates of experts in the former government, Canada's government debt would reach 45 per cent of the GNP at the end of the present decade, whereas the Conservatives assume it may rise to 60 per cent.

In the course of the election campaign the Conservatives accused their opponents that they had set up FIRA and turned it into a nationalist watchdog which was to blame for 3,700 million dollars' worth of capital investments flowing out of the country. Now, FIRA was indeed renamed Investment Canada and stripped of the right to control new capital investment projects involving foreign capital and to consider bids to buy Canadian companies with assets and turnover below a fixed limit. On the other hand, its functions now included searching for new sources of investment capital, including foreign ones—a fundamentally new development.

It was reaffirmed that a number of enterprises in the public sector would be reprivatised. In October 1984 it was announced that the new government intended to urgently reduce the portfolio of state participation in industrial and other non-finacial companies. In the course of the first round in the clearance sale of companies belonging to the Canada Development Investment Corporation it was expected to reduce assets by approximately 8 billion dollars.[52] It was intended, in the first place, to transfer into private hands some major companies in difficult financial straits and with insufficient orders (the same Canadair and De Havilland in manufacturing and Eldorado Nuclear Ltd. in mining).

The sale of stock accumulated in the hands of the federal holding company was to be directed by its new President, Paul Marshall, a member of the Brascan leading group who represented the interests of the Bronfman family resources empire. A total of eight top officials known to be people of the Bronfmans were included on the board of the Canada Development Investment Corporation—an impressive example of the Conservative cabinet's relationship with the world of Big Business.

Paul Marshall was faced by a far from easy task. The sale of the stock as a package proved unpracticable right away, and searching for a buyer of each separate company was hardly simple. While the acknowledged leader of the sector Bell Canada bid for the controlling interest of Teleglobe Canada, it proved difficult to find anyone prepared to pay 125 million dollars for the stock of Massey-Ferguson, which had been purchased in its time by the state in a crash operation to save the company from bankruptcy. In any case, the reprivatisation course began to be implemented, as was the policy of active convergence with the USA.

Having announced immediately after his victory that he would invite President Reagan for an unofficial visit to Canada, Mulroney stated as his chief objective in international affairs "to renew relations of confidence with our greatest friend, neighbour and ally, the United States of America".[53] A week after he had become Prime Minister he hurried off to Washington provoking raptures in the US press.

As the newspaper of the Canadian Communists wrote, in return for the promise to dump more money into NATO and hand over to the multinationals some of the industry presently held by the government, Mulroney apparently hoped to obtain a pledge from the American Administration that it would take steps to lower interest rates, put a stop to acid rain and resume the practice of consultations with its closest ally.[54]

As to the policy of creating new incentives for the inflow of foreign capital, the Conservatives pinned their principal hopes for sustaining business activity on this policy. In any case such was the opinion of the British *Economist* which wrote in an editorial at the beginning of November that the Mulroney government had staked on the ability of foreign investors to provide the economy with invigorating injections which it badly needed.

The dust raised by the elections had only just settled when the talks on sectoral liberalisation were resumed. In the days of the Mulroney-Reagan meeting in Quebec an influential American newspaper wrote in an editorial that despite Canada's concern over the American companies' deep penetration of its economy, it was in the interests of both sides to continue "efforts to reduce existing trade barriers". It was emphasised, however, that such changes were to gain momentum gradually over a certain period of time.[55] The participants in the summit expressed their desire, in particular, to reduce trade obstacles and stimulate the flow of products for defence needs. It was arranged that the trade ministers of the two countries would submit their proposals in half a year so that specific measures on trade liberalisation would be adopted during a year, at least in part of the sectors earmarked earlier. Additionally, the sides announced their intention to reduce obstacles in energy resource and science-intensive product trade. Although the objective of complete tariff disarmament of the two North American countries was not included on the agenda by the present Conservative government, its intention to undertake more active efforts to extend existing sectors of free trade was displayed quite clearly.

In early 1985 the Minister for International Trade issued a paper defining the new government's approach to the problem of further trade integration with the USA.[56] Support for sectoral talks and a proposal to extend the range of commodities involved in the talks (including petrochemical products, non-ferrous metals, meat, and possibly wood products, furniture, alcoholic beverages and cosmetics proposed earlier by the American side) were combined in it with praise for the idea of a comprehensive agreement on liberalisation. It also indicated support for the above draft general agreement with the USA proposed by the

Business Council on National Questions.

Contrary to the traditions of the last few decades, an integrational agreement with the USA was not linked to the concept of free trade anywhere in the paper—apparently not to give rise to unpleasant associations and reproaches that Canada was ready to rush into the "fatal embrace of the American eagle".[57] Nevertheless, the paper went on to estimate the possible effect of such an agreement, and of course the effect was judged to be exclusively positive (a 5 to 10 per cent growth of the GNP by means of rationalisation and longer production runs, an up to 30 per cent increase in productivity and so on). Considerations were also set down concerning the way such a comprehensive agreement would come into force, its possible influence on protectionist trade practices and the system of state regulation of the economy.

Generally the government had shown that it was secretly preparing for new large-scale steps aimed at drawing closer to Canada's southern neighbour. Its own position was probably expressed in the following words of the paper cautiously presented as a tentative approach to an integrational agreement with the USA: "The interdependence of the Canada-US economies is already at an advanced stage and ... the absence of formal bilateral arrangements impedes the development of a more competitive economy and thereby erodes our capacity to pursue Canadian development and exercise Canadian influence internationally".[58] The Canadian press remarked with an ironic twist that the policy paper suggested "that an economic marriage with the United States is very much on its (Progressive-Conservative government's—*A.B.*) mind".[59]

It would be appropriate to note at this point that this policy of the Conservative Government was criticised at the "11 prime ministers' conference" in Regina (February 1985) in which Mulroney and the heads of the provincial goverments took part. It seems, however, that the absence of a national consensus concerning the future of Canadian-American trade would hardly stop the Canadian Tories who had finally gained access to federal power.

Up to the end of 1986 high-level Canadian and US representatives held five successive meetings to negotiate new sectoral free trade arrangments.

[1] *Canada-United States Relations,* Vol. II, p. 108.
[2] *Ibid.*, p. 50
[3] See, for example: Brouce W. Wilkinson, *Canada in the Changing World Economy,* C. D. Howe Research Institute, Montreal, 1980, p. 163; *Canada-United States Relation,* Vol. II.
[4] J. Cornwall, *Modern Capitalism: Its Growth and Transformation,* London, 1977, pp. 193-94.
[5] B. W. Wilkinson, *op. cit.*, p. 163.
[6] *U. S. Congress, Official Summary of the Trade Act of 1974,* Washington, 1974, p. 3.
[7] See: Economic Council of Canada, *Looking Outward,* Ottawa, 1975.
[8] *Canada-United States Relations,* Vol. III (*Canada's Trade Relations with the United States*), Standing Senate Committee on Foreign Relations, Ottawa, 1982, p. 57.
[9] *Canadian Trade Policy for the 1980s. A Discussion Paper,* Canadian Government Publishing Centre, Ottawa, 1983, p. 45.
[10] *Export Opportunities* (Supplement to *The Financial Post*), March 31, 1984, p.4.
[11] *The Financial Post,* May 5, 1984; *The Globe and Mail,* March 16, 1984.
[12] *The Financial Post,* June 9, 1984; Department of External Affairs, *Statements and Speeches,* Ottawa, 1983, No. 83/5.
[13] Peter Morici, *The Global Competitive Struggle: Challenges to the United States and Canada,* C. D. Howe Institute, Toronto, 1984, pp. 98, 101.
[14] S. Clarkson, *op. cit.*, p. 137.
[14a] U. S. Embassy, *Information release,* No. 36-37. Ottawa, Nov. 9, 1976, p. 4a.
[15] Harald von Riekhoff, J. H. Sigler, B. W. Tomlin, *Canadian-US Relations: Policy Environments, Issues, and Prospects,* C. D. Howe Research Institute, Montreal, 1979, p. 65.
[16] *Canada-United States Relations,* Vol. II, p. 117.
[17] S. Clarkson, *op. cit.*, p. 134.
[18] *Ibid.*, p. 136.
[19] *The Financial Post,* August 18, 1984, p. 10.
[20] *The Globe and Mail,* March 16, 1984, p. 8.
[21] *A New Course for Canada. Submission of the Central Executive Committee, Communist Party of Canada to the Royal Commission on the Economic Union and Development Prospects for Canada, October 25, 1983,* Published by the Communist Party of Canada, Toronto, pp. 8, 15.
[22] *A Review of Canadian Trade Policy. A Background Document to Canadian Trade Policy for the 1980s,* pp. 212.
[23] Walter Gordon, *A Choice for Canada. Independence or Colonial Status,* Toronto, 1966, p. 92.
[24] *Communist Viewpoint,* Vol. 13, No. 4, July-August 1981, p. 11.
[25] Edward A. Carmichael, *Policy Review and Outlook, 1985. Time for Decisions,* C. D. Howe Institute, Toronto, 1985, p. 63.
[26] *Financial Times of Canada,* October 1, 1984, p. 9.
[27] Quoted in Thomas L. Burton, *Natural Resource Policy in Canada. Issues and Perspectives,* McClelland and Stewart Ltd., Toronto, 1972, p. 17.
[28] *The Financial Post,* September 1, 1984, p. 13.
[29] *A New Course for Canada,* p. 3.
[30] *Problems of Canada's Historiography,* Moscow, 1981 p. 267 (in Russian).
[31] Richard D. French, *How Ottawa Decides. Planning and Industrial Policy-Making 1968-1980,* James Lorimer & Company, Toronto, 1980, p. 157.

[32] T. L. Burton, *op. cit.*, p. 125.

[33] W. Steward, *Trudeau in Power*, New York, 1971, p. 222; *Nationalism, Technology and the Future of Canada*, ed. by E. Gagne, Toronto, 1976, pp. 24, 113-19.

[34] *A New Course for Canada*, p. 15.

[35] *Gazette*, January 31, 1981.

[36] Watkins headed a research group which had compiled an extensive report describing the negative consequences of American monopoly domination in Canada, known as the Watkins Report (See *Foreign Ownership and the Structure of the Canadian Economy*, Ottawa, 1968).

[37] T. L. Burton, *op. cit.*, pp. 123-24.

[38] Walter Gordon, *Troubled Canada: The Need for New Domestic Policies*, Toronto, 1961; W. Gordon, *A Choise for Canada. Independence or Colonial Status*, Toronto, 1966.

[39] George W. Ball, *The Discipline of Power. Essentials of a Modern World Structure*. An Atlantic Monthly Press Book. Boston-Toronto, 1968, p. 113.

[40] H. Von Riekhoff, J. H. Sigler, B. W. Tomlin, *op. cit.*, p. 117.

[41] *A New Course for Canada*, p. 16.

[42] *Time*, New York, No. 4, July 23, 1984.

[43] *Le Monde*, September 7, 1984.

[44] *The Financial Post*, August 25, 1984, p. 3.

[45] *Time*, New York, No. 4, July 23, 1984.

[46] *Wall Street Journal*, August 13, 1984.

[47] *The Financial Post*, August 25, 1984.

[48] *The Financial Post*, September 8, 1984.

[49] *The Financial Post*, July 21, 1984.

[50] *The Financial Post*, September 1, 1984, p. 14.

[51] Quoted in: *Canadian Tribune*, September 17, 1984, p. 4.

[52] *The Economist*, November 17, 1984, p. 78.

[53] *Time*, September 9, 1984.

[54] *Canadian Tribune*, October 1, 1984, p. 4.

[55] *The Christian Science Monitor*, March 15, 1985, p. 17.

[56] *How to Secure and Enhance Canadian Access to Export Markets. Discussion Paper*, Ottawa, The Honorable James F. Kelleher, Minister for International Trade, 1985.

[57] *The Financial Times of Canada*, February 4, 1985.

[58] *How to Secure and Enhance Canadian Access to Export Markets*, p. 31.

[59] *The Financial Times of Canada*, February 4, 1985.

Conclusion

It would seem that this entire book confirms the conclusion, obvious to most scholars studying Canada, that the country's place in the world capitalist economy is decisively determined by its relations with its neigbour on the continent. As the Canadian Communists point out, what makes Canada unique is that it is "more integrated into and more dependent on the US economy than any other developed capitalist country".[1] Non-Marxist researchers also recognise the unprecedentedly high degree of "bilateral interdependence" with the United States and "the asymmetry in this relationship".[2]

Quite a few facts were cited above to show growing integrational interaction between the economies of the two North American countries. Thus, in the early 1980s the scale of import of intermediate products (food and industrial raw materials, semi-manufactured goods, certain kinds of finished products intended for further consumption in production—equipment, parts and assemblies, electronic components and so on) from the USA reached 30 per cent of the Canadian production of goods indicating the ongoing integration of the two countries' economic structures and the tremendous role of deliveries from the USA in providing for the normal functioning of Canadian industry. Accordingly, the share of intermediate products imported from Canada approaches 4 per cent of the value of shipments of US production of goods—also a very high level in view of the ten-fold gap in the scale of the economies. Although machines and equipment are on the whole a weak sphere of Canadian export trade, quite impressive results have already been achieved on the American market. Up to 85 per cent of Canadian deliveries of machinery go to the USA; these deliveries' share in Canada's total bilateral export exceeds one third.

The exchange of intermediate products of smelting and machinery industries and a wide range of specialised finished goods (including such exchanges between elements of the same transnationals) is supplemented by reciprocal deliveries of similar resource products (oil, coal, iron ore, natural gas, and electric power) in order to save on transportation costs or due to seasonal differences (for example, more electric power is cosumed in Quebec in wintertime for heating and in summertime in New York for air conditioners). Many manifestations of integrational interaction may be found in such spheres as private financial business (from an extensive network of American banks in Canada and vice versa to common elements in discount policy), trade in securities (the Toronto stock exchange, for example, generally follows in the footsteps of the New York stock exchange with a certain time lag) and also the activities of the central bank (similar principles in regulating the money supply, interest rates and so on). The general movement of social reproduction in the two countries displays remarkable parallelism which was clearly demonstrated during the last cyclic crisis and recovery. According to an influential Canadian newspaper, the latter have proved that Canada's economy is increasingly strongly bound to the American economy.[3]

It is patently obvious that the interlocking and interaction of the national economies within the North American integration complex has been further enhanced in the last few decades. It is hardly correct to describe it as reciprocal influence, as bourgeois economists like to do: as a result of inequality between the partners North American integration is distinguished by mostly unilateral influence by US reproduction processes and government policy on the junior partner of the regional complex. "Canadians can be excused if they 'watch the American economy like wary hawks'... Like it or not, we are tied to what happens across the border,"[4] says Calgary journalist Hap Witherspoon.

Thus, Canada is a highly developed capitalist state with an obviously open economy deeply involved in regional integrational processes on the North American subcontinent. While its economic potential is marked by overall high standards of quality, the country's industry shows notable structural disproportions and is largely controlled by foreign capital, which has a strong impact on Canada's place and positions in the world capitalist economy. Of course, Canada has to a considerable extent outgrown the role of hewer of wood and drawer of water at the court of His Majesty American Industry it has played in this century, but the Canadian economy has still retained its truncated and branch-plant development with respect to the more powerful and ramified industrial complex of the USA. In the last few decades Canada's foreign economic relations have acquired new dimensions and become much more diversified, but the decisive link of its industry to markets, sources of material supply and advanced technology in the USA has been retained on the whole.

In his time Dean Acheson called Canada a regional power without a region. If this paradoxical statement is applied to the economy, it quite aptly expresses the historical fact that Canada's national economy is overshadowed by US imperialism and is increasingly absorbed in the superstructure of the North American regional complex emerging under the decisive impact of the interests of US Big Business. On the political plane, the statement implies that while Canada is a sovereign and independent state it, nevertheless, pursues a foreign policy always with an eye on its powerful and expansive neighbour in the region and directly follows in the footsteps of American imperialism on a number of major international issues.

Domestic policy as well, including the social and economic sphere, experiences a powerful impact from outside which the Canadian bourgeois parties in power can and do oppose only up to a certain point. Stephen Clarkson has written: "Canada's economy is so open that its governments have little macroeconomic control and only a partial microeconomic capability."[5]

Of course, quite a lot depends on the specific political forces leading the ship of the Canadian state through the stormy waters of the modern world in any given period. According to a widespread opinion in North America, the Conservatives would almost certainly remain the majority party until the end of the century.[6] If that is so, it will depend on the Conservatives and their leader Mulroney to what extent their foreign and domestic policies would be essentially Canadian, i. e. would conform to Canada's interests and capabilities as a sovereign nation. It is interesting, in particular, whether the course announced by the present cabinet to attain a really important and far-reaching target of doubling national R&D spending within five years will turn out to be consistent and effective.[7]

It would seem that in pursuing an intraregional policy the free hand of the Conservatives will objectively be more restricted than in policy-making on a larger range of international issues. This has to do with the very powerful integrational background against which economic, and to a large extent social and political, processes are developing on the North American subcontinent. Many North American scholars believe that, faced by acute differences with the USA on specific issues, Canada has no choice, in effect (either to settle these differences or just slam the door) since "There is a limit to the extent that Canada can assert its economic independence from the United States and cut itself off from American technology, investment, and markets".[8]

North American integration will undoubtedly continue regardless of whether or not it will be institutionalised in an intergovernmental treaty in the near future. In our time hardly anyone would choose to maintain that the fate of integration depends directly on the possibilities of further trade liberalisation on a bilateral basis. For the latter is only one, albeit important, element in the integrational system. Even if sectoral talks were to reach an impasse, which is highly unlikely in view of the Reagan-Mulroney combination, this would not mean that integration as an objective and (under capitalism) largely spontaneous process of interlocking and increasing mutual penetration of national economies in the region would stop or even slow down.

At the same time there is no reason to believe that there will be a considerable evolution of forms of North American integration in the near future. Apparently, the chief impulses for stronger economic interaction in the region will come from private monopoly capital, as has been the case until now. Whatever serious contradictions overshadowed political relations between the USA and Canada at various periods of time, most leaders of major companies on both sides of the border have firmly adopted the continental philosophy and generally tend to take into account the potentialities (resources) and needs (trends in market demand) not of the national but rather of the subcontinental economy in taking specific economic decisions. On the other hand, however wide-reaching future interstate agreements may be, their real integrational impact may also become apparent on the micro-economic level in the first place, through their influence on the production and market policies of Canadian and American companies on both sides of the border.

It is important to point out that integrational processes are developing in the North American region on the basis of the capitalist world's highest concentration of production and capital with the active participation of the largest and most powerful monopolies of the contemporary West. The industrial apparatus of both countries is highly developed and is undergoing virtually continuous modernisation accompanied by further extension of the division of labour and of the relations of specialisation and cooperation, chiefly within the regional framework but also on a broader basis. No wonder recent decades have not only witnessed energetic interlocking of the private monopoly capital of the USA and Canada but also the fact that, like a powerful magnet, North America has attracted more and more investment capital from other continents, primarily from Western Europe and Japan, and since the mid-1970s even from the Middle East.

Under the circumstances it is hardly possible to speak about the rise of a truly closed economic grouping in North America. Rather, it is a matter of strengthening and expanding the sphere of "special relations" between the two countries, the growing intensity of exchange, capital and production internationalisation within the region as compared with other areas of foreign economic relations developed by each of the countries involved in North American integration. Still a significant impulse for further drawing closer and mutual interlocking of the economies of the USA and Canada could, of course, be provided by new agreements on bilateral trade liberalisation both on a sectoral basis and, in particular, of a comprehensive nature.

The gradual strengthening of the bilateral nature of the integration process in the North American region has become a major new feature. Above we already dealt with the symptomatic appearance of a flow of capital from Canada to the USA in the form of direct investment. It would be appropriate here to indicate that the laying of firm foundation for Canadian business operations in the USA in the form of many billions of dollars of investments in the capital stock of American industry increases interaction between the two economies, contributing to deeper regional division of labour and a growing scope of specialisation and cooperation within individual North American transnationals and between independent companies on both sides of the border.

That is what may be called the external aspect of the Canadianisation policy, which is becoming more pronounced as the financial possibilities of national monopoly capital increase and as it grows in terms of quality and quantity. As A. G. Kvasov has written in our day "the giant American transnationals are confronted in the country not by individual corporations but by powerful and closely linked groups of national finance capital" which increasingly often seek "a new source of profit primarily in the American economy".[9] In his opinion, and we tend to agree with it, the Canadianisation doctrine, "which has never been anti-American", serves as an ideological reflection not of the desire to shut the country off and isolate it from the USA but rather of national monopoly capital seeking to overcome the "disbalance in the continental economy".[10] It is an attempt to revise the rules of the game underlying the regional economic alliance. After all, "These rules, which had controlled the Canadian economy's distorted evolution throughout the twentieth century, had been largely 'Made in USA' ".[11]

Even a partial success in this undertaking is all the more important because integration is not something transient, not something here today and gone tomorrow. Like the territorial proximity to the USA, the field of gravitation created by the closeness and functional interrelations with the powerful American national economic body serves as a permanently operating and in many respects basic element of the situation in which the Canadian economy develops.

With an economic potential only about one tenth of the American and a restricted market, Canada hopes to gain certain economic benefits from further integration with the USA (at least through the influence of larger production scale and longer production runs). It is equally obvious, however, that these benefits can be gained only in the course of its economic structure dissolving in a wider regional "hyperstructure" subordinated to US monopoly capital, and, therefore, this entails greater erosion of national sovereignty. Even today "Canada, like other host countries, is concerned that foreign subsidiaries may operate differently than domestic-owned firms in comparable circumstances and also about the extraterritorial application of US law to subsidiaries operating in Canada".[12]

The example of North American integration points particularly clearly to the interrelationship between economic and political problems (typical of the contemporary world) in the overall context of bilateral relations between countries and, in particular, to the "politicization of economic policy questions".[13] Many economic problems have in recent years become inalienable elements of the agenda on Canadian-American top-level intergovernmental talks. The following contradictions of recent years that have acquired a clear political colouring may be singled out: those having to do with the National Energy Programme, a protracted conflict over the question of fishing in coastal waters, the problem of environmental pollution compounded by acid rain falling on the territory of Canada as a result of hypertrophied industrial activities in adjacent areas of the USA.

Although the foreign policy course pursued by Canada as a medium-sized power and an ally of the USA in NATO largely coincides with the American course and "Europeans frequently note their inability to distinguish between Canadian and U.S. positions on many of these multilateral issues",[14] it would be a mistake to regard the two countries' policies as identical. The sphere of foreign policymaking conforms quite well to the observation made by Academician Georgi Arbatov to the effect that "a great deal in Canada contradicts the concept of North American identity".[15]

The link to the USA in the military-strategic field is particularly close, however, which is reflected in the absence of Canada's own military doctrine, curtailed sovereignty in control over troops, and the fact that all of its arms and services rely on American weapons systems. On this question Clarkson wrote: "Unlike the other members of the alliance (NATO—*A.B.*), Canada has a further bilateral dependency that is the product of a very advanced degree of integration in the continental part of the United States' military command and in the bulk of its military-industrial complex".[16]

Despite a strong nationwide protest campaign, in 1982 the USA managed to extract the Canadian government's consent to build a testing range in Alberta for American cruise missiles. The present Conservative government is evidently prepared to go even further. This was demonstrated, for example, by an official statement of support for Reagan's Star Wars programme and also the signing of an agreement in spring 1985 on joint American-Canadian modernisation of the early warning radar system in North Canada. The Pentagon is demanding new concessions, in particular, agreement to deploy several dozen depth bombs in different areas of Canada in the event of a critical situation in the world.

The subordination of Canada's national interests to Washington's whims runs into growing resistance throughout the country. This has been reflected in Parliament where MPs from both opposition parties—the Liberals and the New Democrats—condemned the support of Star Wars programmes by the government and the American plans to deploy nuclear weapons on Canadian territory.

Outside of Parliament this resistance is expressed mostly in the growing demand of the people that Canada pursue a truly independent peaceful foreign policy, specifically stop tests of US cruise missiles on Canadian soil, declare the country's territory a nuclear-free zone and reduce military expenditures. There is a growing awareness that specific Canadian demands are closely linked to broader international actions against militarisation of outer space, to appeals for nuclear powers to follow the USSR's example and pledge not to use nuclear weapons first, as well as to join the Soviet moratorium on nuclear test explosions, and support for the proposal to freeze existing stockpiles of nuclear weapons and subsequently reduce them.

Dissatisfaction with the unconcealed pro-American course pursued by the government gives rise to opposition from the advocates of a more independent policy for Canada. The latter are also to be found among part of the Canadian bourgeoisie. A significant fact is the founding of a committee including members from the most different political cirlces to defend and continue the policy of Canadianisation of the country's economy, culture and foreign policy.[17]

So it would seem that in the political plane, too, Canada will seek to secure a "stronger international role as a counterweight to US ties".[18] Otherwise it would be difficult for Canada to disprove the prediction of the prominent futurologist and founding director of the Hudson Institute, Hermann Kahn, who said that the country has "a so-so future".[19]

What its future will actually be like depends exclusively on the Canadians themselves. Indicating the obvious inability of the ruling party to consistently defend national interests, the Canadian Communists urge their country's working-class movement to rally forces in the struggle for a democratic alternative to state-monopoly capitalism and against the antipopular elements of the Conservatives' social and economic policy. As *Canadian Tribune*, organ of the Communist Party of Canada, has written: "If ever an anti-monopoly coalition were needed it is needed now."[20]

[1] See: *A New Course for Canada*, p. 7.

[2] See, for example, Grant L. Reuber, *Canada's Political Economy. Current Issues*, McGraw-Hill Ryerson Ltd., Toronto, 1980, p. 136; *International Organisation*, Spring 1978, p. 514.

[3] *The Financial Times of Canada*, February 4, 1985.

[4] *The Christian Science Monitor*, July 13, 1983, p. 5.

[5] Stephen Clarkson, *Canada and the Reagan Challenge. Crisis in the Canadian-American Relationship*, p. 287.

[6] *The New York Times*, September 7, 1984.

[7] *The Financial Post 500* (Supplement to *The Financial Post*), Summer 1985, p. 43.

[8] *Canada and the United States: Transnational and Transgovernmental Relations*, p. 274.

[9] *SShA: ekonomika, politika, ideologiya*, No. 2, 1985, pp. 32, 35.

[10] *Ibid.*, p. 35.

[11] S. Clarkson, *op. cit.*, p. 11.

[12] *Ibid.*, p. 107.

[13] Harald von Riekhoff, J. H. Sigler, B. W. Tomlin, *Canadian-US Relations: Policy Environments, Issues, and Prospects*, p. 8.

[14] *Ibid.*, p. 41.

[15] *Canada on the Threshold of the 1980s: Economics and Politics*, Moscow, p. 5 (in Russian).

[16] S. Clarkson, *op. cit.*, p. 245.

[17] See: *Pravda*, March 25, 1985.

[18] M. J. Drouin, B. Bruce-Briggs, *Canada Has a Future*, McClelland and Stewart Ltd., Toronto, 1978, p. 24.

[19] *Ibid.*, p. 12.

[20] *Canadian Tribune*, Oct. 1, 1984, p. 4.

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CANADA–USA

PROBLEMS AND CONTRADICTIONS IN NORTH AMERICAN ECONOMIC INTEGRATION

Doctor of Economics Andrei D. Borodayevsky has been studying economic problems of the United States and Canada for many years. His works are marked by in-depth and comprehensive investigation of extensive factual material, careful analysis of development trends and an original approach. These qualities are present in his works published in Russian: *USA-Canada: Regional Economic Complex* (1983) and *Canada in the System of International Economic Relations* (1985). He is also in charge of the political economy department at the All-Union Economic and Financial Institute in Moscow. The new book by Borodayevsky sums up his study of complex and contradictory relations between the United States and Canada in the economic sphere and sets forth some prognostic estimates.

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