



NEWS

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Wilfrid Laurier University

75 UNIVERSITY AVENUE WEST WATERLOO, ONTARIO, CANADA N2L 3C5 TELEPHONE: (519) 884-1970 EXT. 2070

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Richard K. Taylor
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Sidebar for main story: 004-1986.

Note: This release was written by Dr. Murray. You are free to run it in any form you like. Interviews with Dr. Murray can be arranged.

Free trade concept gets mixed
reaction from Region executives

By J. Alex Murray
Dean, school of business and economics
Wilfrid Laurier University

The issue of free trade is being analyzed by the federal government, individual provinces, consumer groups, labor and business. Everyone has an opinion--an answer to the issue of free trade with the U.S., which they feel is the best for Canada. However, "answers that sound good, aren't necessarily good sound answers."

In order to focus the discussion on the impact that free trade with the U.S. would have on the Waterloo Region of Kitchener, Waterloo and Cambridge, the Laurier Institute for Business and Economic Studies added several questions to its annual study on business confidence*.

*Copies of the general business confidence report, No. 6-85-02, are available from the Laurier Institute.

They attempt to assess perceptions of the business community within the Region on whether they feel free trade would be a "good thing," "bad thing" or are "not sure," for their company and the Region.

Of the 800 manufacturing firms listed in Scott's Industrial Directory for the Waterloo Region, 200 were selected by quota sampling for the survey. Geographically, the breakdown was,

Kitchener	38 per cent
Waterloo	27 per cent
Cambridge	35 per cent

The annual survey questions business executives on their confidence in the coming year for their company and the community at large. At the same time, special questions on a potential free trade agreement with the United States and the reasons for such opinions were included. One hundred and seventy companies responded; one quarter of the companies were small with sales under \$1 million; 35 per cent of the companies had sales between \$1 and \$10 million, and 40 per cent of the companies were large with sales over \$10 million.

Confusion which stems from a nervous public has been reproduced in the response of the Waterloo Region business with 38.5 per cent not sure if they would like to see a free trade agreement; 37.3 per cent definitely reporting a yes, and 24.2 per cent a no vote.

In order to get behind these opinions, a probing question was asked about each choice.

Respondents who would like to see a free trade agreement generally referred to "a larger North American market and closing off the current protectionist move in Washington" as the most significant benefit from such an agreement.

In addition, a number of companies felt that Canadian industry was competitive with the U.S. and given a phase-in period, there would be no problem in meeting the competition. Attitudes which have a normative viewpoint such as "subsidies and protection shield businesses from reality and do not motivate them to be excellent in what they do" were given to downplay the more negative connotation that free trade means only more competition.

As expected, the larger the firm, the more positive was the response to a Canadian agreement of free trade with the U.S.

Nearly one quarter of the companies (24.2 per cent) were against a free trade agreement, and the most recorded reasons being the differences in labor and union laws as the major deterrent, in addition to the strong social programs being supported by industry.

Several of the companies which had received government subsidies felt "manufacturing jobs would be lost to the U.S., and that Canada might do better with free trade restricted to raw materials."

The general feeling that Canadians would not be willing to lower the level of social programs in order to compete with the Americans was recorded by a number of the respondents. They felt that in order to be competitive, painful changes would be forced on Canadians.

The recent fishery controversy with the U.S. and the resulting 6.8 per cent countervailing duty adds credence to the concern that social programs, such as unemployment insurance, would surface on the bargaining table.

Some industries were adamant that U.S. production could easily absorb the Canadian market and that such economies of scale were not available to Canadian business.

The largest percentage of respondents (38.5 per cent) were "not sure" or "undecided" about free trade with the Americans. The opinions behind this response focused on a government without a strong strategic plan. Many of the industries in the Waterloo Region could not measure the overall impact that free trade might have on their companies.

Several respondents were more concerned about non-tariff barriers (NTB) than actual tariffs and how this type of protection created imperfect markets. In effect, NTB's such as regulations and "Buy American" slogans are more powerful as gates to Canadian exports than customs duties and, thereby, plant operations and specialization.

Manufacturers who are in industries in which exports were already a major portion of their business were concerned about their regional suppliers and that they might be forced to buy more competitively south of the border. Firms that were not currently exporting felt it would take some time to gear up for a tariff-free North American market.

Again, the majority of firms who were in doubt about the impact of free trade on Canada and whether they would like to see a negotiated agreement, were most concerned about the federal government's approach (or lack of) to negotiations.

Many felt there was a noticeable conflict and diversity of purpose among the provinces and federal government which may result in a less than effective agreement.

The companies that were already in sectorial agreements (farm machinery, auto parts, and defense sharing such as aircraft plants) do not feel there would be a strong impact on their industry if a free trade agreement were negotiated.

The Laurier Survey examined the general state of business over the past year for individual firms and the expected outlook for 1986. Firms that had substantially improved over 1985 were more apt to register a "yes" opinion for free trade, or at least a "not sure", as against those who had seen a downturn in their business.

Companies which anticipated a stronger 1986 appeared to be more positive about a free trade agreement with the U.S. than firms which indicated no change in their business or feared a possible downturn.

In summary, the Laurier Institute's survey indicates cautious attitudes toward a free trade agreement, and those business executives who support one are concerned that it be a free trade area and not a customs union or common market.

Respondents emphasized that the government should be particularly cautious of the cultural integrity of Canada and that social programs may need specific consideration since they place manufacturers in the Waterloo Region at a disadvantage.

Non-tariff barriers have been a problem in the past and they will have to be dealt with through special negotiations. Any movement towards zero tariffs should be "phased in" to give local manufacturers a period of adjustment in order to competitively react to the larger American industry.

And finally, disputes which will emerge should be effectively handled through pre-determined procedures of arbitration.

As the government moves towards the negotiation phase, it would be well advised to take heed of the warning signals raised by the Waterloo Region manufacturers, remembering free trade is a two-way street.

Industry and jobs that have been lost cannot be negotiated back. As one manufacturer said, "I hope the government is not just protecting current jobs, but insuring new ones for the future."