Canada Moves South

Britain launches an economic 'submarine' against the U.S.

A policy turn toward "industrialization" with emphasis on arms production has become conspicuous among British-linked Canadian government and corporate circles since early May. This "development turn" is in no way a reversal of the standing antidevelopment British policy toward Canada and the rest of the world. The new emphasis is on an immediate and direct buildup of Canada as a corporate and financial center of British operations and a base for British investment designs on the U.S. economy.

BUSINESS OUTLOOK

The policy shift occurred the week of May 7 — the same week the historic Soviet-West German treaty was announced. Speaking that week at ceremonies in honor of his inauguration, newly appointed British Ambassador to Canada Lord John Ford promised Canada "a new world role" in future British military contracts and at the same time warned that "Canada must get out from under the yoke of the United States and develop its own industrial capabilities."

Lord Ford's call to arms was appropriately seconded the same week by the Canadian Director of the London-based International Institute for Strategic Studies, Brigadier Hunt, in a full-page feature in the Toronto *Star.* Hunt bemoaned the current "U.S. monopoly on arms sales" and attacked U.S. President Carter as "an irritant" for refusing to go along with Britain's demands for development of the neutron bomb. Britain herself announced two major arms sales to the less developed sector, a massive £750 million sale to Iran and a £300 million contract for the supply of military ships to Argentina.

Reverse U.S.-Canadian Investment Flows

The immediate emphasis on Canadian inputs to British arms contracts is linked to a long-term perspective ultimately aimed at an actual reversal of the historic relationship between the U.S. and the Canadian economies (see accompanying article).

In the years since the close of World War II, Canada has absorbed a major portion of the United States' surplus capital investment and reinvested earnings. At the same time, the Canadian market has accounted for 40% of total U.S. export trade. Hence, provided that the North American industrial economy as a whole produces a surplus of real value, increased contracts to Canadian firms represent a strengthening of that surplus and profit position.

However, with the United States' continued trade deficit and the recent collapse of the Canadian dollar against its U.S. counterpart, the Canadian corporate account has been artificially turned into, if anything, a liability from the standpoint of its U.S. parents.

Firms such as Massey Ferguson and Ford Motor Co. are experiencing heavy foreign exchange losses on profits recalled from their Canadian subsidiaries as a result of the Canadian dollar plunge, and many corporations have recently planned major diversions of capital investment from Canada to foreign investment which promises an inflated return, such as the British North Sea oil program.

Added to the escalating political pressures represented by the threat of Quebec secession, the flight of capital has reduced the value of Canadian industry to bargain-basement levels. The door has been opened for a major British "killing" on the North American economy. The disproportionate strengthening of the Canadian side of the aerospace and electronics industry, together with an accelerated Canadian purchase of devalued subsidiaries of U.S.-owned corporations, marks the initial phase of the design. And a pattern toward substantial Canadian buying up of U.S. industry itself is already emerging.

The pattern was aptly demonstrated by spokesmen for Northern Telecomm Ltd., a subsidiary of Bell Canada, who recently announced that by the mid-1980s, the firm will be investing more capital in the U.S. than in Canada, reversing the normal investment flow between the subsidiary and its parent country. Such investments involve plans for extensive purchases of relatively small U.S.-based electronics firms, firms which could become highly valuable assets in a context dominated by the present British high-technology armaments policy. In line with the same pattern, Bell Canada has in recent months, received major contracts for high-technology electronics equipment, including part of a $4 billion contract with Saudi Arabia which under normal conditions would have gone to U.S. firms on a priority basis.

—Peter Wyer