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OLD INDUSTRIES ARE SOVEREIGNTY'S "SOFT" SPOT

Prime Minister Mulroney asked in his February 13th Quebec speech if any business person would be prepared to put the future of their company on the line without an in-depth cost/benefit analysis or market study and if the future of the country did not deserve at the very least equally serious analysis. He stressed that "it is not economic blackmail to ask Quebecers to look carefully at the facts before taking economic decisions that involve their economic well-being and that of their children." Right on!

In spite of the current information vacuum on the economic consequences of Quebec sovereignty, a consensus based on wishful thinking has emerged among many Québecois economists and businesspersons and has been enshrined as dogma in the reports of the Allaire Committee and the Belanger-Campeau Commission. It is that in the long run there are no economic costs of sovereignty and that the short-run

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transitional costs can be minimized if both sides to the split are rational. This consensus needs to be challenged by the facts.

A good place to start is with the most recent data on interregional trade flows to see if the Quebec economy is still highly vulnerable to the disruption of trade flows that might result from the breakup of Canada. This vulnerability came through loud and clear in the earlier studies done in the late-1970 period leading up to the Quebec referendum. It was one of the important factors that convinced Quebecers to vote "non".

The recent interregional trade data shows that, while Quebec has become less dependent on Canada and more dependent on international markets since the previous studies were done, in 1984, the latest year for which data is available, 26.5 per cent of manufacturer's shipments still went to the rest of Canada compared to only 21.3 per cent outside of Canada. The Canada-U.S. Free Trade Agreement should reduce Quebec's dependence on Canadian markets further, but, barring separation, Quebec's greater dependence on Canadian markets than foreign is likely to continue at least in the near future.

In contrast, only 6.8 per cent of manufactured shipments from the rest of Canada go to Quebec. Even in Ontario, Quebec's biggest trading partner, only 8 per cent of manufactured shipments are to Quebec. For other provinces, the proportion is even smaller, reaching a low of 1.8 per cent of manufactured shipments from British Columbia going to Quebec. Clearly, Quebec is much more dependent for markets on the rest of Canada than the rest of Canada is on Quebec.

Quebec industries where interregional shipments account for large proportion of total shipments (defined as over 40 per cent) are tobacco, rubber, leather and allied products, textiles, clothing, and chemicals. Of these, textiles and clothing are the most important as measured by the value of interregional shipments.

Quebec's foreign shipments are particularly important relative to the total for paper and allied products, primary metals, and transportation equipment. These are Quebec's most important international export manufacturing industries. Incidently, the paper and allied products industry, which is Quebec's largest single export industry, is threatened by environmental concerns and the trend to paper recycling.

In 1984 Quebec ran a surplus in trade with the rest of Canada in manufactured goods of $3.3 billion. It was the only province other than Ontario to run a surplus. The source of this surplus as shown in the table remains the same as it was when the earlier studies were done in the late 1970s and should be a matter of concern to sovereigntists. Almost $1.9 billion of the surplus or 56 per cent still came from the five "soft" industries of leather and allied products, primary textiles, textile products, clothing, and furniture and fixtures. These industries are labour intensive and subject to strong foreign competition from low-wage countries. Rhetoric about dynamic outward looking entrepreneurs aside, the structure of the Quebec economy has not moved as far away from its traditional base as sovereigntists would like the Quebec public to believe.

The textiles and clothing industries, which are the largest and most important of Quebec's "soft" industries are only able to operate behind high tariff walls and then only after being propped up by Voluntary Export Restraints (VER) under the Multi-Fibre Agreement (MFA). Effective rates of protection for textiles average 16.6 per cent and Most Favoured Nation (MFN) customs tariffs for most clothing are 25 per cent. Import penetration in the market for textiles and clothing has been limited to 30 to 33 per cent through restraints on 80 per cent of imports. In 1986 the growth in base levels of imports in previously restrained items was limited to 2 per cent over the 1987 to 1991 period and the base levels for the four major exporters of Hong Kong, South Korea, Tawain, and China were rolled back slightly. Import restraints are a much more important source of protection for the textiles and clothing industries than high tariffs.

Information on the structure of the "soft" industries is provided in the table. These industries employ over 124 thousand people and account for about almost a quarter of total manufacturing employment in Quebec. Their share of total value added is much less than their share of employment (only 13 1/2 per cent). These "soft" industries are concentrated geographically in Quebec where 48.5 per cent of employment and 45 per cent of value added is produced.

Employment in the "soft" industries, particulary textiles and clothing, has declined in the face of tough international competition, dropping from 155 thousand in 1974 to 124 thousand in 1987. But the adjustment process of contraction and labour shedding has been slowed by high tariffs and especially import restraints. Further adjustment will be required.

In a sovereign Quebec, the "soft" industries would be highly vulnerable to changes in Canadian commercial policy. Good neighbourliness is one thing, but Canadian consumers can hardly be expected to bear the costs of protecting the "soft" industries of a sovereign Quebec. Nor can they be expected to bear the costs of adjustment as a sovereign Quebec economy embarks upon a needed process of restructuring.

The high price that Canadians would have to continue to pay to support Quebec's "soft" industries would certainly make a customs union with a sovereign Quebec look like a bad deal. From Quebec's perspective, even a customs union would not be enough to protect its textiles and clothing industry. This would require nothing less than a continuation of jointly administered import restraints, an arrangements that would be an even worse deal for Canada than a customs union.

Quebecers should heed the Prime Minister's warning and take a harder look at the economic benefits from Confederation and the costs of separation. If they did, they would learn that trade relations is not the only area in which they stand to lose and perhaps they would become less eager to gamble their economic future on sovereigntist wishful thinking.

QUEBEC "SOFT" INDUSTRIES

	Interregional Trade Surplus Manufacturing in 1984 ($ mil.)	Shipments to Rest of Canada in 1984 (% of Total)	Employment in 1987 (thousands)
Leather & Allied Prod.	51	43.7	8,162
Primary Textile	56	33.7	13,976
Textile Products	438	51.7	16,009
Clothing	1,141	45.7	65,539
Furniture & Fixtures	177	37.6	20,446
Total "soft" industries	1,863	43.0	124,132

SOURCE: Statistics Canada.

, Destinations of Shipments of Manufacturers 1984, Catalogue 31-530, April 1988.These figures are not exact because Statistics Canada withholds some information on interregional shipments in order to preserve confidentiality. After the PQ government came to power in 1976 and in the period leading up to the 1980 referendum, there was a flowering of economic studies that seriously examined all of the possible repercussions of Quebec separation. Notable among these studies were the Accent Québec series of the C.D. Howe Research Institute and the Understanding Canada volumes of the Canadian Unity Information Office. Important issues highlighted by these studies were the dependence of Quebec on trade with the rest of Canada and the vulnerable industrial structure of the Quebec economy.

The current debate on Quebec's constitutional future has not yet allowed sufficient time for another round of economic studies to revisit these issues. The process of hearings before the Belanger-Campeau Commission and of more free flowing encounter sessions orchestrated by the Spicer Commission has done little to ensure that the needed studies will be done and the required information will be available before fundamental decisions on Canada and Quebec's future are made.