

CANADA'S TRADE POLICY FOR THE 21ST CENTURY "THE WALLS OF JERICHO FALL DOWN"



It is impossible to have watched the course of events over the last year without recognizing that something fundamental is happening to the international trading system.

Twelve months have witnessed the birth of NAFTA and the WTO. APEC has agreed to reach free trade among its developed economies by the year 2010 and among its developing economies by the year 2020. Not to be outdone, the countries of the Western Hemisphere have set 2005 as their target for free trade in the region, while the three NAFTA partners launched immediate discussions for the accession of Chile. At the same time, the European Union has proceeded with its own plans for

expansion both northward and eastward.

As Canada's Minister for International Trade put it in a January speech to the University of Toronto, the regional trade agreements that proliferated in 1994 may be "the birth pangs of a new international economic order—a messy, haphazard scramble towards a system of global free trade. Like the sudden collapse of the Berlin Wall in 1989, trade and investment barriers the world over seem to be crumbling under the weight of their own contradictions."

Trade liberalization, Mr. MacLaren said, is following as much as leading underlying economic trends. A world economy is being fashioned "from the bottom up," driven by technological innovation that has made possible the instantaneous transfer of information. This emerging knowledge-based global economy is diminishing the influence

of national governments and changing the nature of relations among them: "Once trade policy was about regulating commercial relations between national economies, largely through the negotiation of tariffs; now it is about establishing the ground rules of a transnational economy in areas that were once quintessentially domestic: standards and regulations, investment, competition policy...."

The irresistible pressures to keep pace with trade liberalization have led to the formation of other free trade areas, resulting in a "global chess match" as countries seek to increase their own competitive edge.

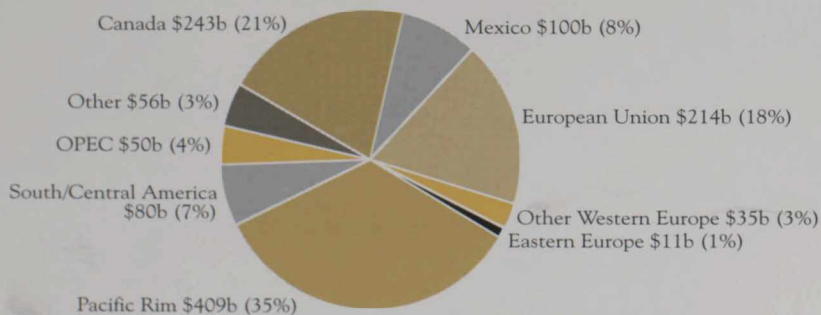
Much of this competitive momentum, Mr. MacLaren said, has been generated by the Canada-U.S. Free Trade Agreement (FTA) and its expansion to Mexico through NAFTA. The FTA broke new ground in the areas of dispute settlement, investment, trade in services and procurement, and, in Mr. MacLaren's words, "sent a clear signal to our other trading partners that North America was committed to a more open, more structured international economic order, and that we were prepared to leave behind those countries unwilling to move in this direction." The FTA and NAFTA influenced the final GATT agreement and "spread ripples into Asia and beyond," leading to the historic agreement by the Asia-Pacific Economic Cooperation (APEC) forum to establish free trade among Pacific nations by the year 2020.

But where are all these agreements leading? Mr. MacLaren suggests they create the potential for "a new trade arrangement that bridges all the blocs—a kind of WTO-plus" made up of nations willing to commit to more comprehensive rules for trade and investment. The main virtue of such an approach, Mr. MacLaren said, is that it would "mitigate the 'them-versus-us' mentality associated with regional blocs," which can turn trade competition into trade conflict.

Another potential danger posed by regionalism, he said, is what Canadian economist Sylvia Ostry has called "system friction," whereby legitimate differences in legal systems, financial regulations and government structures among nations may be branded as unfair trade practices. While harmonization of

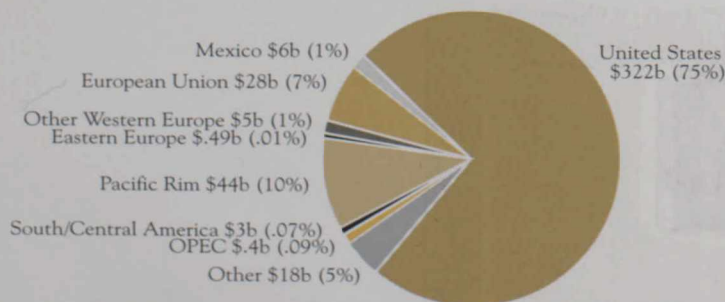
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U.S. Merchandise Trade with the World
1994, By Percentage of Total, In Billions of U.S. Dollars



U.S. Total Merchandise Trade: US \$1.2 trillion
Source: U.S. Department of Commerce

Canada's Merchandise Trade with the World
1994, By Percentage of Total, In Billions of Canadian Dollars



Canada's Total Merchandise Trade: C \$429 billion
Source: Statistics Canada