

IV. Out With the Old?

(i) Background:

Do tariffs and other "traditional" border measures still matter? Put more broadly, is a "new" trade policy focussing on the domestic instruments required to encourage investment supplanting an "old" trade policy emphasizing the tools of border protection? As outlined elsewhere in this paper, much has changed. Tariffs are certainly lower. Successive rounds of GATT negotiations have reduced the average level of import duties in industrialized countries from about 40% in the late 1940s to approximately 5% today. Consequently, the trade and investment distortions implicit in the use of a high tariff as an industrial policy tool have declined. Moreover, the trade policy agenda has clearly become more complex and reaches more comprehensively into domestic economic policy and practice than 45 or even 5 years ago.

Yet, to suggest that there has been a sudden break between the "old" and the "new", although it might make good copy, rather misses the mark.

First, border issues continue to have a major impact on domestic policy choices. They are likely to remain central to Canada's trade policy agenda for some time to come. In a sense, the focus on border protection has even expanded, given the increasing attention placed on liberalizing cross-border trade in services: here the language appears new, but the access issues (QRs, prohibitions, licensing requirements) are often familiar. Moreover, even at current rates, the tariff is in many instances a more effective barrier than it has been in over 20 years. Although exchange rate fluctuations comprise a more important factor in many instances, the combination of low inflation and lower economic growth means that even a relatively modest import duty can count more than before in the balance books of a company scrambling to address tight profit margins. The result is a bit like a 400 metre hurdle race in which the height of the hurdles remains the same, but the track has become more hazardous because of rain.

Second, non-border measures have long been an important part of international trade law and practice, certainly since the establishment of the GATT. There has been no break as such, but rather more a steady expansion of the number of issues for which explicit disciplines are being sought as a result of greatly increased international investment and trade flows and the growing importance and internationalization of technological innovation. Overall, there are strong currents of both continuity and change in the challenges facing trade policy.