



STATEMENT

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**NOTES FOR AN ADDRESS BY
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MINISTER FOR INTERNATIONAL TRADE,
TO THE EMPIRE CLUB**

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Let me start by thanking the Empire Club for the opportunity to speak today.

Revolutionary is not a term that is typically used to describe Canada's trade policy. And yet, almost unnoticed, we find ourselves on the leading edge of an economic revolution that is transforming the Americas — a revolution as profound in its long-term implications as the changes underway in Asia, Eastern Europe and the ~~former Soviet Union~~.

A clear expression of this revolution is Canada's decision earlier this year to enter the North American Free Trade Agreement [NAFTA] with the United States and Mexico, building on our fundamental commitment to the expansion of multilateral, rules-based trade in the new World Trade Organization [WTO] to come into existence on the first of January 1995.

What the NAFTA reflects — and reinforces — is the emergence of a more truly integrated North American economy; an integrated economy which goes beyond more intensive trade linkages to encompass converging infrastructures, common distribution networks, and an increasingly intricate web of cross-border production.

Nor is the movement toward closer economic integration limited to the northern half of the hemisphere. In addition to the NAFTA, Mexico has entered into a free trade arrangement with Venezuela and Colombia. A revived Andean Pact will link the economies of Peru, Bolivia, Colombia, Ecuador and Venezuela through freer trade.

And just this month Argentina, Brazil, Paraguay, and Uruguay signalled their intention to move the Mercosur further toward a full common market. Nowhere in the world has the drive for economic liberalization and reform been more vigorous and more far-reaching than in this hemisphere.

Yet despite these rapid advances in recent years, there are signs of late that this revolution of market liberalization may be faltering. After playing a leading role in securing the successful conclusion of both the NAFTA and the Uruguay Round of the GATT [General Agreement on Tariffs and Trade] last year, the United States is in danger of losing its momentum for freer trade.

This danger is already evident in the context of current Canada/United States bilateral relations. Although we enjoy the world's largest trade relationship — one in which the vast majority of our two-way trade flows without impediment — we have encountered a number of corrosive disputes that reflect, for the most part, the triumph of narrow, protectionist interests over a broader trade vision.

The related issue of NAFTA expansion, too, hangs in the balance. After initially embracing a vision of free trade from Alaska to Tierra del Fuego, some in the United States now talk of an undefined period of study and assessment, perhaps leading to a limited form of economic "association" between the original three members of the NAFTA and the other countries of the region. Meanwhile, ~~the immediate question of whether Chile can accede to the NAFTA~~ remains unanswered.

Largely in reaction to perceived U.S. uncertainty, other countries in Latin America have begun to re-evaluate their own options. Not surprisingly, separate bilateral deals — or even an exclusive South American free trade area — have for some begun to look increasingly attractive as the prospects for full hemispheric integration appear to grow dimmer.

The dangers of losing direction at this critical juncture cannot be overstated. Trade agreements are not static institutions. They are living, dynamic arrangements. Like bicycles, they thrive on momentum. The NAFTA has no choice but to move forward at this time — deepening its rules as well as broadening its membership — or risk slipping backward.

For Canada, this would mean living with an agreement that is essentially unfinished — and, by extension, living with a growing number of imperfect solutions to the frictions associated with closer economic integration. Any loss of momentum could also mean missing an historic opportunity to build bridges to the newly emerging economies of Latin America in a way that is both comprehensive and non-discriminatory. Perhaps most important, a loss of momentum could risk a fundamental change in the orientation of the NAFTA itself from an open, dynamic arrangement, to a more closed, inward-looking bloc.

Certainly it is no secret that the increasingly cautious approach of the United States towards NAFTA expansion is fuelled largely by protectionist forces — forces just barely kept at bay during the difficult passage of the NAFTA legislation through the U.S. Congress late last year. Unless we can ensure that the NAFTA door is kept open to Chile, Argentina, or other would-be partners, there is a very real risk that it will remain permanently closed.

Nor is NAFTA the only regional game in town. Brazil has already launched a proposal to use the new Mercosur common market as the cornerstone of a wider South American free trade area. As a means of breaking down barriers in the region, liberalizing trade, and drawing countries into an integrated economic space, Mercosur represents a bold and imaginative step forward, one which Canada encourages.

Nevertheless, it does not require a great deal of imagination to recognize that, faced with a closed NAFTA door, the countries of Mercosur would confront even greater pressure to carve out their own markets and to formalize their own distinct economic space, possibly by erecting exclusionary walls.

~~The danger then is that the dream of comprehensive hemispheric trade would give way to the Realpolitik of competing regional blocs — the "them-versus-us" mentality so antithetical to further trade liberalization and economic growth.~~

What we need at this point is an overarching trade and investment policy for the Americas — a larger, bolder vision that could serve to overshadow and ultimately overwhelm more parochial and divisive concerns. In short, we need a policy that reflects the openness, energy, and dynamism of our economies; that recognizes the creative synergy that can emerge from the marriage of developing and developed economies; that reaches out to all countries willing to commit to more intensive, more comprehensive rules-based trade.

The NAFTA can provide the foundation for such a policy. With the political will, the NAFTA could be the nucleus for a wider free trade association that could in time include countries throughout the Western Hemisphere and beyond. With the right commitment, it could emerge as a new kind of economic association, one defined not by geography, but by a collective commitment to deeper levels of free trade: the nucleus of a new global GATT-plus.

The underlying idea would not be to replace the existing multilateral system — still less to set up a discriminatory regional bloc — but to establish a coalition of countries willing to move further and more quickly toward the goal of trade and investment liberalization. A wider free trade association could also be one engine to drive the more cumbersome, but centrally important multilateral negotiating process that we all must encourage in the World Trade Organization.

The original justification for the Canada-U.S. Free Trade Agreement — and the subsequent trilateral agreement with Mexico — was really just that: to push forward in areas where our degree of economic integration called for a deeper, more comprehensive regime of rules than GATT itself could provide. In areas such as dispute settlement, investment, trade in services, and procurement, the NAFTA has already moved well beyond the kind of consensus that has been achieved in the larger and more slow-moving multilateral context. In other critical areas — such as trade remedy law — Canada is working hard to deepen the agreement.

Both Canada and Mexico have also signalled their desire to move quickly on NAFTA expansion in the Western Hemisphere. Although

it is critical to get Chilean accession right, there is no reason why, in time, all countries that agree to abide by the NAFTA rules should not be welcome. Nor is there any reason to limit this expansion to the Western Hemisphere.

The accession clause of the NAFTA does not speak of "Western Hemisphere countries", ~~but simply of "countries or groups of countries."~~ The acid test of membership should be a commitment to submit to the disciplines of the Agreement and a willingness to work together to push the trade and investment agenda forward.

For other countries in the hemisphere, the accession route offers entry into a dynamic, high-quality agreement that is already in place — no small advantage given the protectionist forces currently arrayed against additional trade liberalization in the United States.

Not without scars, Canada has run the gauntlet with U.S. negotiators twice in the last five years — and we are the United States' largest trading partner. One can only guess how a Chile or an Argentina, standing alone, would fare against an increasingly restive and protectionist U.S. Congress. Equally important, NAFTA could serve as a bridge among the increasingly complex web of free trade initiatives that have proliferated in the Western Hemisphere.

As for the three existing NAFTA partners, broadening the Agreement offers more than access to growing markets. It offers new partnerships and new alliances to tackle the hard trade issues of the future, and provides a more balanced negotiating framework in which to achieve these goals.

It also offers us a powerful tool in our dealings with the rest of the world by demonstrating that those countries unwilling to move toward greater liberalization risk being left behind in the wake of dynamic regionalism.

As such, the NAFTA has the potential to set in motion an external, competitive dynamic to reduce tariff and non-tariff barriers worldwide — the potential, that is, to kick-start a new round of global trade liberalization. For ultimately it is to the multilateral trading system in general — and to the newly created World Trade Organization in particular — that we must look for the long-term future of free trade.

Already the link between what we have done trilaterally and the broader multilateral trade agenda has been a direct one. For example, on the newly emerging issue of trade and environment, the discussions which have taken place in the GATT reflect our negotiating experience with the NAFTA side agreements.

As we define the ambitious agenda for the World Trade Organization, the NAFTA could again provide a crucible for forging a new consensus and for developing new approaches as we seek to expand the boundaries of the rules-based trading system.

But the process must start now. Canada, the United States and Mexico ~~have laid the foundations for a new kind of economic order.~~ We have eschewed the constraints of a customs union or a common market in favour of a much more open economic area — one whose inherent dynamic is to reduce barriers and to expand to others.

We have created an agreement that can move beyond "free trade" to address the need for closer economic co-operation.

And we share an intellectual commitment, not simply to freer markets, but to the ideals of openness, liberation, and freedom — North America's enduring contribution to the onward march of civilization.

For all of these reasons, we must set our collective sights on moving the NAFTA forward — on building a broader and deeper architecture. Trade agreements should not — and cannot — stand still. The European Union began life in the 1950s as a modest coal-and-steel accord between France and Germany. Today it is a supra-national federation of 12 nations, poised to expand yet again.

The Australia and New Zealand Closer Economic Relations Trade Agreement has been augmented six times since it was concluded in 1983, including the addition of a 1990 provision to eliminate antidumping action between the two countries.

Changes of this magnitude require vision and political will. In the NAFTA, there are certain mechanisms to help make this happen; some 25 NAFTA commissions, committees and working groups will deal with the nuts-and-bolts questions of enhancing our free trade area. Public interest has understandably focussed on the Labour and Environment commissions, but there are other groups which will meet regularly to address the more prosaic stuff of trade — rules of origin, standards for agriculture, telecommunications standards, labelling of textile and apparel goods, temporary entry for business people — and so forth.

By far the most important — and most far-reaching of these working groups are the two established recently at Canadian prompting to address the continued absence of common rules governing the application of trade remedy laws — laws which really have no economic rationale in a free trade area. We know that it will not be an easy task to agree on these issues; we also know that our success in this endeavour will signal whether

North America's common economic interest can transcend narrow domestic concerns.

Another area where the NAFTA — or a NAFTA-plus — can move forward is investment. Increasingly, servicing a foreign market means achieving a presence in that market — whether through joint ventures, ~~strategic partnership or direct capital investment~~. Already we have seen a spectacular growth in cross-border investment within North America itself, and within the Western Hemisphere as a whole. In a world where trade is not just about what you make, but about how and where you make it, an advanced investment code should be one of the central rationales of a NAFTA.

Here, as elsewhere, Canada can take a leading role, even in the face of apparent U.S. uncertainty. We have a unique opportunity to push the hemispheric agenda forward, a unique opportunity to help chart the trade policy map of the next several years even decades. After all, the defining characteristic of Canada's foreign policy has been the commitment to international rule making and consensus building.

Canada's security and prosperity have always been inextricably linked to the health of international systems. Our enduring strategy for working toward shared goals and interests has consistently been to build a shared architecture of international rights and obligations. When the countries of the Western Hemisphere gather at the Summit of the Americas in Miami this December, Canada at least will have a clear message to deliver.