

Statement

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**NOTES FOR AN ADDRESS BY
THE HONOURABLE ROY MACLAREN,
MINISTER FOR INTERNATIONAL TRADE,
TO THE VANCOUVER BOARD OF TRADE**

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Something fundamental seems to have happened to the international trading system over the last several years.

The countries of Asia and the Pacific have agreed to establish free trade among their developed economies by 2010 and among their developing economies by 2020.

A few weeks ago the countries of the Western Hemisphere, meeting in Miami, set 2005 as their target date for free trade. Since four members of this proposed Western Hemispheric Bloc are also members of the Asia-Pacific grouping, the chances of an eventual convergence between the two blocs seems high.

At the same time, Europe is undertaking its own expansion eastward – all the while observing anxiously the dynamism of Asia and the Americas.

Something fundamental is happening to the international trading system because something fundamental has already happened to the global economy.

The technological revolution since the Second World War has laid the foundations of a world economy. When there is worldwide movement of the means of production – of capital, investment and technology – there must eventually be worldwide movement of products.

In a sense, then, trade liberalization is following – not leading – underlying economic trends. A messy and bewildering web of bilateral and regional trade arrangements, especially in Latin America, reflects the efforts of national governments to adapt to an increasingly international economic system.

International structures themselves are under pressure to change. The GATT [General Agreement on Tariffs and Trade] was established after the Second World War to deal with international trading relations among national economies. But such economies are ceasing to exist in any meaningful way. The challenge now is to develop mechanisms and superstructures to deal with economies of regional or global dimensions.

There is still strong pressure for National Governments to be mercantilist – especially in the area of high technology. Yet ironically, these are the very sectors that are least susceptible to national constraints. Governments can prevent lumber or steel from crossing borders; they have little control over the global movement of ideas, know-how, or culture.

These changes in the structure of the global economy have fundamentally altered the dynamic of trade liberalization.

Trade negotiations have in the past been essentially mercantilist in nature – based on the underlying assumption that exports are good and imports bad. Domestic barriers were concessions to be

traded away for access to foreign markets. But in a global economy, domestic barriers become a self-inflicted wound — a sure way of being isolated from increasingly international investment and production decisions.

Countries are facing irresistible pressure to mesh with this emerging global network of production and distribution. Everyone is competing to be the most attractive location for investment and production — to be at "the centre," so to speak, of the emerging global economy. Much of what is happening, nationally and regionally, reflects the underlying pressure for the unilateral reduction of barriers.

The result is a process of competitive liberalization — a global chess game where bilateral and regional initiatives are part of an overall strategy to liberalize further and faster. This, in turn, helps set in motion a wider competitive dynamic to reduce barriers worldwide — to kick-start a new global round.

Thus, Canada, the United States, and Mexico decided to enter into a "deeper" free trade relationship both to circumvent the slower pace of the multilateral round and to put pressure on their other trading partners. In response, Asia launched its own regional trade initiative largely out of fear of being left behind by a dynamic and expanding NAFTA [North American Free Trade Agreement].

Canada's real challenge is to position itself strategically for this new Asian landscape, to ensure that it is prepared domestically for the burgeoning opportunities that lie ahead.

Even 12 months ago, a commitment to free trade among the countries of the Asia-Pacific region would have been unthinkable. Yet in Jakarta in November, the members of the Asia-Pacific Economic Cooperation forum, or APEC as it is more familiarly known, agreed to establish free trade among the developed economies of the region by 2010 and among developing economies by 2015 — that is, if any of APEC's members are still defined as developing by that time. The implications are nothing short of revolutionary: free trade between Canada and Japan in 15 years; free trade between Canada and China in 25.

But these changes in Asia, sudden and dramatic though they are, are part of a broader, worldwide process of competitive liberalization. Like their counterparts in the Western Hemisphere or in Europe, the countries of Asia today find themselves competing for footloose capital and technology in an increasingly global marketplace.

The very dynamism of the Asian economies today gives APEC a growing significance. This region has become the focal point of immense shifts in the global economy. Beyond the continued and rapid growth of Japan and the "Asian Tigers," the region is the cradle for the emergence of two enormous and hitherto closed economies:

China and India. More quickly than most realize, their emergence will send shock waves through the global economic system – shock waves that will need to be managed and ultimately absorbed, partly through membership in the new World Trade Organization but also through membership in APEC.

This will make APEC, almost by definition, a key arena in which trade policy issues of the future will be played out. The evolving nature of APEC will challenge how we understand and deal with the trade agenda of the 21st century – above all the interaction of trade policy with investment policy, with competition rules, with technological development and with environmental standards. The focus of the World Trade Organization on formal negotiation leading to binding disciplines is often at variance with the Asian preference for informal deliberation and consensus building. In this sense too, APEC might provide a path forward in areas for which the World Trade Organization, at least for the moment, is still ill-equipped.

Perhaps most important, APEC is uniquely placed to bridge both sides of the Pacific. Although some may question the ability of two and potentially three economic superpowers – the United States, China and India – to coexist within the same Asia-Pacific Bloc, APEC has the potential, if structured properly, to provide an interface between the two continental economies – a geopolitical "buffer" ensuring that neither regional integration within Asia nor the extension of free trade throughout the Americas will create a fault line running through the Pacific. APEC can help to sustain and mediate the cross-cultural management of trade issues in a way that neither the World Trade Organization nor the OECD [Organization for Economic Co-operation and Development] can.

The APEC Summit in Jakarta in November was preoccupied with the question of when the commitment to free trade should be completed. A more salient issue is when – and in what ways – the negotiation of free trade should begin. Only by moving forward, only by maintaining the momentum arising from the seven years of Uruguay Round negotiations, can we make concrete progress. Canada has suggested some specific steps.

First, Asia-Pacific countries could consider accelerating the implementation of the tariff cuts agreed to in the Uruguay Round. APEC could explore further tariff cuts in other sectors. There may be possibilities of additional sectoral tariff harmonization or of new zero-for-zero initiatives in a range of products. At the same time, APEC economies must build on the General Agreement on Trade in Services to further liberalize their financial services, a key sector in the modern, globalizing economy, where trade and investment are becoming indistinguishable.

Second, APEC economies should consider how we can remain at the forefront of investment liberalization. We should move

progressively from a set of non-binding principles to an agreed set of rules with appropriate dispute settlement provisions. More effort is needed to facilitate international private investment – a major source of growth in this region – and to reduce uncertainties and transaction costs of investment and investment-related trade. APEC economies could work toward a standstill on all measures that hinder investment flows among them while we work on a code.

Third, APEC economies could consider pursuing, in the short term, the elimination of export subsidies on agricultural trade in the region. In the longer term, a prohibition of all export subsidies in agricultural trade worldwide should be our common goal.

Finally, APEC countries could advance on trade standards. Since the Asia-Pacific region contains many of the world's leading high-tech firms, we might want to select one or two sectors, such as telecommunications, with the objective of reducing the negative trade and investment effects of differing standards within the region.

This is an ambitious agenda. So much so that some less optimistic observers have suggested that the APEC target dates for free trade are unrealistic. I take a rather different view – that the changes we see in Asia, as well as in the Western Hemisphere and Europe, have their own intrinsic momentum. Once free trade negotiations are underway, their momentum will likely accelerate.

The challenge for Canada is to be prepared for this remarkable transformation. This is not just a question of linking more effectively aid and trade, or of throwing more export credit at problems. Not only can Canada no longer afford this approach, but I have doubts as to its success over the past several years. Our policies, our initiatives and our activities must form aspects of a larger strategy. We must set realistic targets, outline our key objectives and evaluate dispassionately our results. We must sharpen our focus and target the delivery of our existing services to Canadian companies, especially the small and medium-sized, who are beginning to look beyond North America for export and joint venture opportunities. This means disseminating market intelligence more effectively; it means better co-ordination among federal departments and with provincial governments; and it means involving Canadian businesses and private sector organizations in setting objectives and planning operations.

We must look at how other aspects of government policy and operations might be better co-ordinated. We need to look at how our representation in the Asia-Pacific region might be adjusted, both to reflect our own emerging priorities and to encourage relations of yet greater sophistication with other countries in the region. We are exploring ways to develop more open, user-friendly Canadian missions, with facilities developed in partnership with a variety of stakeholders and designed to accommodate the full range

of activities needed to build further our ties with the country concerned - a kind of "Canada House" or "Place Canada" concept.

Our development assistance efforts in Asia over the past four decades are something of which all Canadians can be proud and we must not lose sight of the fact that, unfortunately, Asia remains home to the largest number of people still living in poverty.

At the same time, the challenge of development is shifting. Structural change in Asian economies suggests it is time to consider a transition from conventional resource transfer to genuine development co-operation. Our aid should reflect and encourage the greater maturity in our bilateral relationships and respond to the mutual interests that draw us together. One obvious way is to strengthen and expand our education centres in our missions in Asia, centres that provide students with information about education facilities in Canada and help to build thereby the links that can be so important in the future.

If I am right, Asia is entering a dramatic and far-reaching process of "opening" to the world. But Canadian business needs to be present and to maintain a presence if it wishes to steal the march on our competition. We need to seek long-term strategic investments and partnerships in key markets in order to weave the webs of production and technology that are so central a feature of today's trade landscape. In short, we cannot succeed as part-time players.

A failure to build stronger links with an increasingly confident Asia will have costs for the Canadian economy extending well beyond issues of market share. In many ways, our economic relations with the Asia-Pacific region will increasingly help to define our global competitiveness and, by extension, our own domestic development. Our success in building strategic partnerships with Asian firms, or in penetrating new markets for Canadian energy, infrastructure, services and manufactured products will help to reinforce - indeed define - our competitive edge in global markets. In the same way, our ability to sustain valued markets for traditional agricultural and natural resource sectors in Asia-Pacific will help to strengthen these Canadian mainstays in the world at large.

Although until now a significant Canadian presence in some of the markets of Asia has remained elusive, I am convinced that the winds of change are blowing throughout the region. We must be well prepared to participate in the free trade and investment that is not far over the horizon.

Thank you.