

# *Statement*

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**NOTES FOR AN ADDRESS BY  
THE HONOURABLE ROY MacLAREN,  
MINISTER FOR INTERNATIONAL TRADE,  
TO THE  
64TH ANNUAL COUCHICHING CONFERENCE**

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of Canada

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**Canada**

This year's Couchiching Conference focusses on Canada and Latin America. Stepping back for a moment, this choice is remarkable and obvious. Remarkable because, until recently, the region has never been central to Canadian foreign policy nor critical to Canada's economic health. Yet obvious because much has changed over the past 10 years. This change requires both recognition and reflection.

Despite certain long-standing business connections, and what we used to call people-to-people contacts, the Canadian experience in Latin America was historically neither deep nor comprehensive.

Both of us had difficulty seeing past the United States. Canada's traditional transatlantic ties continued to beckon even as they were changing, often quite radically. The dynamism of East Asia attracted increasingly focussed attention within our business community, just as immigration flows from Asia were enriching our society. In contrast, Canada's hemispheric vocation was primarily the stuff of after-dinner toasts and, let's be frank, public posturing during episodic government-led safaris or ambassadorial speechifying.

But no longer. Much has changed internationally across a broad front. The sea change in international relations obliges each of us to re-evaluate where we best fit and to recognize what new options are available.

Each of us seeks to grasp the opportunities provided by the greater variety of possible partners and the shifting balances that determine the "why?", the "how?" and the "with whom?" of this new era in international relations.

The political and economic reforms that have swept Latin America have instigated Canada's own reform of our Americas policy. Throughout the 1970s and into the 1980s, Latin American refugees in Canada reinforced the fear that the region was run by dictatorships, torn apart by civil wars, and economically dependent on single crops.

During the last 20 years there has been unpredictable change. One by one the military dictatorships have given up power and economic liberalization and free market reform have been introduced. The growing movement towards participatory democracy and economic liberalization gave Canada the opening that was needed to revitalize our ties with Latin America.

In 1989, our foreign policy review included the then controversial decision to take our seat at the Organization of American States [OAS], which we did in 1990. This decision signalled to the countries of the region that Canada was prepared to engage with them in a way that we had not in the past. Our active participation in the Miami Summit of the Americas in 1994 and the Prime Minister's visit to the region in 1995 reinforced this attitude.

Let me mention some of the critical changes that will continue to have an impact on Canada's view of its role in the Western Hemisphere, and on the Hemisphere's view of Canada.

I claim no originality in identifying the changes - but I do insist that their emergence and concentration in the relatively brief period of the last 10 years is striking and represents a watershed. The changes include:

- The end of the Cold War and, consequently, the greater emphasis placed on economic rather than traditional diplomacy.
- The much deeper and more comprehensive acceptance of the merits of the competitive marketplace for sustaining growth, with several Latin American countries among the leaders making this transition.
- The continuing strength of globalization, driven by international trade, investment and technology flows that have consistently outpaced domestic growth.
- The emergence of a broader range of serious players internationally, including several Asian and Latin American countries.
- And finally, a change in Canada's view of international markets as a result of different growth rates around the world, the relative openness of different regions to Canadian traders and investors, and the radically different regional origins and the resulting human contacts of those who have moved to Canada over the last decade or so.

As the Minister responsible for Canada's trade policy, I am acutely aware of the challenges imposed by such fundamental shifts.

Trade policy is an instrument for improving market access through negotiations and for securing that market access through the codification of liberal practices and negotiated commitments to further liberalization.

But trade policy often plays catch-up to the practices of a marketplace that is integrating on a global scale at a sometimes dizzying pace. Trade policy can and does lead the process, not only by lowering barriers, but also, and most importantly, by establishing the rules that govern access in as open and predictable a manner as possible.

Predictability and fairness do not necessarily flow from international economic practice, just as they do not necessarily

flow from domestic political and social practice, unless underpinned by rules.

It would be an error of historic proportions to view contemporary trade policy simply as a ship drifting somewhat irrelevantly on an ever-expanding sea, carried along by gentle currents. Markets are governed by people, often through millions of transactions, but also through activities subject to the influence of single interest groups and protectionists. Governments are frequently tempted to shift course to create national advantage on the back of someone else. Trade policy's calling is to construct a framework of rules that limits the likelihood of special "fixes" to the detriment of open competition where success should depend on quality, price and timeliness, not on sheer economic power and influence.

In the face of such change and with the importance of rule-making to govern that change, where do a specifically Canadian trade policy and Canada's trade relations with Latin America fit? Canada is a major world trader and is increasingly making its mark as a source of foreign direct investment.

Consequently, we will continue to play a very active role in key policy development and management forums such as the WTO [World Trade Organization], the OECD [Organization for Economic Co-operation and Development] and the periodic meetings of the Quadrilateral trade ministers from the European Union, the United States, Japan and Canada.

Moreover, the successful management of our economic relations with the United States requires creativity, adroitness and a cool head to a degree unparalleled vis-à-vis any other single partner.

An important part of Canada's focus must and will remain at this level. Consequently, the push in 1995-96 to complete the Uruguay Round's unfinished business on trade in services and government procurement, the reform effort on trade remedy law including the use of anti-dumping in the NAFTA [North American Free Trade Agreement] context, the WTO accession negotiations with China and others, and the recent decision by OECD ministers to launch negotiations to establish a Multilateral Agreement on Investment all have a critical contribution to make in pursuit of liberalized trade and the fulfilment of Canada's trade policy agenda.

These institutions, relationships and negotiations collectively represent a critical component of our global trade and investment policy where the level of Canada's "game" must be and is recognizably of the first order.

But interestingly enough, most of the recent headlines and a significant share of the available negotiating resources and

creative energy is correctly focussed elsewhere - on regional initiatives. Driven by the changes in the global environment that I outlined earlier, since the mid 1980s much of the growth in trade has been regionally based. In addition, the dynamism of international trade and investment rule making has flowed as much from regional reform efforts toward the WTO/OECD/Quadrilateral world as it has the reverse.

The most active and constructive players internationally now include a number of countries from Latin America and Asia. For example, trade and investment opportunities are emerging in the Americas that appeared to be pipe-dreams just 10 years ago. Also, several Latin American countries tend to share Canadian views on the management of numerous trade policy issues, including the increasingly important trade and environment file, further reform of agricultural subsidy practices and the necessity of considerably tightening the international disciplines on - if not outright dismantling - anti-dumping law. Further reform in these and other areas will help to enhance and secure our access more broadly, including in the other Quadrilateral markets.

From a results-based point of view, regionalism in practice has, by and large, been neither better than, nor dangerous for multilateralism. It is neither a predestined building block nor an inevitable stumbling block to more globalized liberalization. Despite sometimes well-founded fears about the potential trade-diverting impact of regional trading blocs, in practice regionalism can be and often has been a tool to achieve a positive end: growth and job creation.

The two processes, the multilateral and the regional, have often interacted, sometimes easily, sometimes with a certain creative tension, to improve overall access to markets. For example, the establishment and increasing scope of western European integration is the most ambitious and comprehensive example of the regional process at work.

And despite the byzantine protectionism of the Common Agricultural Policy, overall the challenge of a more dynamic Europe has also encouraged others to deepen international trade and investment integration and rule making.

To take another example, the agenda established at the launch of the Uruguay Round in September 1986 helped to shape the Canada-U.S. Free Trade Agreement [FTA], which in turn had a positive demonstration effect on the Round. This creative tension extended to the North American Free Trade Agreement and ultimately back into the final Uruguay Round package.

Without question, regionalism weighs more importantly today than was the case following the conclusion of the penultimate great

multilateral negotiation – the Tokyo Round – which ended in 1979. The evolving negotiating agenda is now very complex and increasingly expansive. More players everywhere are prepared to engage more substantively than before.

Of course, some newly industrializing economies are pushing harder and more constructively than others, depending on the specifics of the issue in play.

On the other hand, several developing countries are more concretely committed than some industrialized nations to specific trade reforms. The willingness of certain Latin American and Asian countries to push much harder than the European Union for far greater cuts in agricultural subsidies during the Uruguay Round is a case in point.

With an increasing number of issues in play, and more players prepared to engage actively but often at cross-purposes, the multilateral game has become more difficult to sustain without creative regional efforts that seek to go farther faster, thereby goading the global system as a whole into action.

In this regard, three regional initiatives have recently captured much attention: first, transpacific efforts through the Asia-Pacific Economic Co-operation [APEC] forum with its goal of free trade by 2010/2020; second, the re-engineering of post-Cold War transatlantic links in light of concerns raised by Canada and others about drift in that important economic relationship; and third, Western Hemisphere free trade.

There should be no doubt about the importance of these regional initiatives, although they enjoy differing degrees of precision and different senses of timing. They comprise key tracks along which the trading community will pursue better market access through further rule making, whether on a building block, step-by-step basis that remains largely regional, or by folding some or all of these processes into a more comprehensive, global negotiation sooner rather than later – that is, through the launch of a new multilateral trade Round.

There are many good ideas and surprisingly broad interest in seeking further economic integration – from this perspective, we live in interesting times. The real question, nonetheless, is how to move forward toward the concrete negotiations stage. That is, how do we get from here to there? In this regard, the regional initiative that has so far generated the most concrete, albeit still fragile, momentum lies in Canada's immediate backyard: the Western Hemisphere.

This hemisphere took up the free trade gauntlet in December 1994 at the Miami Summit of the Americas.

Leaders declared their commitment to "begin immediately" to construct the Free Trade Area of the Americas [FTAA] by 2005, with "concrete progress... made by the end of this century." The next step was taken at the trade ministers' meeting held in Denver, U.S.A. last June. The Denver Declaration established a preparatory work program explicitly linked to eventual negotiations.

Ministers confirmed that the FTAA should be comprehensive in scope and that the final package would represent a "single undertaking" whereby a participant must accept all the elements of the agreement and not just those it momentarily finds convenient. Colombia will host the next ministerial meeting in March 1996, with a third conference tentatively set for 1997 to review the results of the detailed information exchange and analysis that have now been set in motion.

The next challenge is to build on the positive but still tentative results to date and the subsequent preparatory work. What might provide the required momentum and what are the potential obstacles that might derail the process?

The process launched last June in Denver should help to keep all regional players focussed on the free trade objective. Over the next year and a half, 12 working groups will analyze the substantive detail on issues ranging from tariffs and trade remedy law to intellectual property. A different country will chair each of the groups. The venue of the ministerial meetings will also vary. This is positive. It reinforces the process among the more than 30 countries involved of buying into the 2005 vision.

Nonetheless, participants with the resources to help drive the preparatory activity - and this includes Canada in the first ranks - will have to work hard to ensure that the momentum in the current preparatory phase does not become beached on the twin shoals of technical minutia and the lesser commitment of some hemispheric countries to pursuing vigorously a comprehensive package for 2005.

Moreover, in my view, the currently agreed work program, while necessary to achieve the FTAA, is not likely close to being sufficient to provide the momentum required to achieve an ambitious result.

Consequently, countries that are in a position to negotiate must move forward forcefully over the next two or three years in order to create a concrete free trade dynamic that will capture the attention and imagination of the rest of the hemisphere. From a Canadian perspective, accessions to the NAFTA can most credibly create this desired momentum.

The NAFTA, after all, binds together the most prosperous and dynamic subregional area of the Americas, representing the group most committed to comprehensive economic integration and co-operation.

In this regard, the first order of business is the recently launched negotiations on Chile's accession to the NAFTA, an objective that Canada has strongly supported over the last two years. The new partnership with Chile will bring the obvious improvements in mutual access to our respective markets and will ensure that trade and investment relations are conducted at a higher level of security and openness.

Nonetheless, the seminal importance of the negotiations with Chile is not found in this traditional rationale, regardless of its continuing importance.

More critically, Chile is the test case of the capacity of the NAFTA, through its accession clause, to affirm itself as a dynamically outward-looking instrument with perhaps the central role in achieving hemispheric free trade by 2005. Put another way, if the NAFTA countries and Chile can get the latter's accession right, our credibility with regard to achieving hemispheric free trade is considerably enhanced.

But if we get Chilean accession wrong, if this process is derailed, then the most dynamic force behind the broader 2005 project will be lost, at least over the medium term. The momentum would pass to those promoting a more modest and exclusionary South American free trade area.

On economic grounds, Colombia and Argentina could be prime candidates for NAFTA accession after Chile. They enjoy a solid and sustained macro-economic and exchange-rate track record and have balanced and dynamic export sectors. Their entry into the NAFTA with the full range of NAFTA rights and obligations would represent clear, concrete steps toward strengthening the Agreement, while helping to create the momentum needed to kick-start real FTAA negotiations with others in the hemisphere.

Most ambitiously but most necessarily, we must also begin to focus sharply and honestly on the central relationship that will make or break the broader FTAA initiative - the link that must be constructed between the NAFTA countries and their Mercosur counterparts led by Argentina and Brazil. The countries that form these two groupings comprise the bulk of the hemisphere's production, trade, investment and population.

The Senate Committee on Foreign Affairs recently expressed the concern "that Brazil's intention to create a South American Free Trade Area could lead North and South America to solidify into two separate exclusionary free trade areas. We believe that



Mercosur - particularly Brazil - is the key to the creation of a Free Trade Area of the Americas. Brazil commands the largest economy in Latin America - roughly 11 times that of Chile, for example - and lies at the centre of the most important hemispheric trading arrangement apart from NAFTA.

"The Committee believes that Canada cannot afford to wait for the creation of the FTAA, but should continue to build stronger bilateral relations with the Mercosur countries, particularly Brazil. In this regard, the Canadian government should build on Canada's long-standing trade and investment links with Brazil, which were reinforced by the Prime Minister's January 1995 visit to Latin America. We believe that, regardless of how brightly or dimly the prospects of a single hemispheric free trade area are viewed, it is important that stronger bilateral ties may encourage Brazilian firms and investors to examine more closely commercial opportunities in the North American market, thereby fostering political support in Brazil for hemispheric free trade."

Those really interested in hemispheric trade liberalization must begin to address more directly several critical questions about the nature of the potential NAFTA relationship with the Mercosur countries, taken either collectively or individually. Are we seeking an early harvest of commitments? Should we work for a high quality result? Should we work to ensure that those who are ready to move forward vigorously, for example through NAFTA accession, are not held back by those who are less committed? The answers that must emerge to these questions will raise the level and relevance of hemispheric debate on free trade.

Of course, free trade doesn't just happen and it certainly doesn't happen over night. It is the product of much hard work and even harder decisions. Much can go wrong as well as right.

Before concluding, I want to point out several storm-warnings that could become serious obstacles unless commitment and creativity are identified and applied.

First, the fact is that the Administration and the Congress in the United States still have not worked out the shape and content of the so-called fast-track negotiating authority that Chile has quite rightly indicated is a prerequisite to concluding the accession negotiation and that is fundamental to underpinning the credibility of the U.S.'s FTAA commitment. Consultations between the Administration and Congress on fast-track are intensifying in Washington, but there is still a distance to go. Failure would represent a serious set-back for U.S. foreign and trade policy in the hemisphere. This is in no one's interest.

Second, with the best will in the world, the negotiation that we hope will lead to Chile's accession to the NAFTA may not be able

to develop a mutually satisfactory deal involving the same overall balance of NAFTA rights and obligations that current members achieved back in 1992. Despite the high quality of Chile's economic management in practice, the NAFTA requires the codification of our trade relations as well as better and more secure access that is clearly demonstrable to our traders and investors. There is nothing preordained about success. Rather, success will require hard commitments as well as creativity at the negotiating table.

Third, we are at the beginning of the hemispheric free trade debate. The degree of commitment remains by and large untested, including that of some of the bigger players in Latin America. The sooner we can push towards a negotiations stage, the sooner we can judge the seriousness of the proposition. The initial signs are reasonably positive, but the real tests lie ahead of us.

One thing, however, is certain. Success will improve market access in the hemisphere for Canadian and Latin American traders and will remove distortions in investment patterns. Success will cement Latin America considerably nearer the centre of Canada's economic diplomacy. And success in the Americas will be noticed elsewhere and, consequently, will help to create trade liberalization momentum across both the Pacific and the Atlantic sooner rather than later. The greater the likelihood of success with hemispheric free trade, the greater the demonstration effect globally. This global impact would represent the ultimate and greatest success of what we have now begun to seek in the Americas.

Thank you.