



Statements and Speeches

No. 84/13

INTERNATIONAL TRADE ENVIRONMENT

Notes for a Speech by Mr. Marcel Massé, Under-Secretary of State for External Affairs, to the Canadian Export Association, Toronto, October 16, 1984.

Today I want to outline for you some thoughts about the current international economic environment, and to explore some of the trade opportunities and challenges that government and the export community must face together.

A brief look at the environment

Some recovery from the worst recession since the war finally seems to have taken hold. By the last quarter of 1983 there was an acceleration in world trade which seems to have continued at a hopeful rate during the first part of 1984. Consequently, the growth in world trade this year can be expected to be in the range of 5 per cent to 7 per cent in dollar value. In this context, the Canadian export recovery began earlier and has been more powerful. Total merchandise exports increased in value by approximately 7.5 per cent between 1982 and 1983. If we compare the first seven months of 1984 with the same period of 1983, we notice that the growth in value of Canadian exports has been an impressive 28 per cent, substantially above the expected growth in over-all world trade this year. The most notable aspect of this export-led recovery of the Canadian economy has been that the share of Canada's exports going to the United States has increased from 68 per cent to 76 per cent since 1982.

Lest we become too complacent, however, in the face of this export success, it is essential to look behind these figures. Some of the factors which have led to the growing importance of the United States market for Canadian exports may well be of a temporary nature. These include the remarkable strength of the United States recovery and the fact that much of the export success has been concentrated in one, albeit very important, sector — the automotive. In addition, there are already indications that the rate of growth of the United States economy, while remaining strong, has begun to moderate somewhat. Moreover, the American dollar is widely recognized as being substantially over-valued, a fact which can only encourage exports to that market. Such over-valuation cannot be indefinite.

Looking beyond the United States, it must also be said that Canada has been less successful in increasing exports to other world markets. Canadian exports to Japan did increase somewhat in 1983 and have increased again this year at a modest rate, but certainly well below levels that could be achieved in that enormous market. Canadian exports to the European Communities and all other markets actually declined in 1983 and are unlikely to witness much growth this year.

Indeed, the most striking feature of the current economic recovery has been the weak response of the world economy to the vigorous boom in the United States. On earlier occasions, increased export earnings, due to an initial recovery-induced rise of imports into the United States, spread the recovery

from country to country. Little of this process is observable to date. Outside the United States, with very few exceptions, trade-related investment activity has remained moderate. The expanding demand for exports has been mainly satisfied from existing capacity.

The large trade deficit in the United States and concern about jobs in certain key sectors will continue to fuel protectionist pressures in a wide variety of sectors in that country. Protectionist pressures are also clearly evident in economies where the trade deficit may not be as spectacular as that in the United States, but where economic recovery itself has been less notable. In Europe and North America, market access has in recent years been further tightened or become more uncertain in such sectors as agriculture, consumer electronics, automobiles, textiles and clothing and steel, among other sectors.

On the positive side, in the Canadian government and the private sector we both recognize the vital role trade plays in our economy and the need to be internationally competitive. As the Right Honourable Joe Clark said in a recent speech: "We have to put a premium on making Canadians competitive, and keeping us that way. We have to pursue every export opportunity, large or small, traditional or new." This demands that Canada participate in the search for ways of improving access to export markets.

Canada enters the search for a more stable world trading environment in the knowledge that Canada's exports have increased substantially in the past two years. For this performance, the export community in Canada is to be heartily congratulated. The export community, members of your association, are the front line troops in this very tough competitive fight and they have to date done remarkably well. Moreover, the possibility of further trade liberalization is now clearly a prospect. Our largest partner, the USA, is sending out signals that, while they are very uncomfortable with the *status quo*, particularly their enormous trade deficit, they want to move forward rather than backward, to keep trade flows moving and to further reduce barriers through mutually beneficial negotiations.

Opportunities and challenges

In the above context, Canadians have a major opportunity and a challenge. An opportunity to build upon the export success of recent years and upon our many comparative advantages in order to gain increasingly liberalized access to major world markets. And the challenge: a challenge to prepare ourselves adequately and in sufficient detail to allow us to strike the best possible bargain for Canada. Decisions taken over the next year or two with respect to trade negotiations will shape the trading framework for Canadian exporters for the remainder of the twentieth century.

The most important issues on the Canadian trade policy agenda this autumn are preparations for new multilateral trade negotiations and consideration of the initiatives for achieving trade liberalization with the USA. There is no single element in Canada's trade relations which is as vital as our trade ties with the United States.

Mitchell Sharp has addressed today the question of bilateral negotiations with the United States. There has been less public discussion of the prospects for and possible content of a new round of multilateral trade negotiations.

With respect to the preparatory work for the new round, a reasonable operating assumption is that a new round of trade negotiations is likely to begin either in late 1985 or early 1986. The negotiations will be about: (a) trade liberalization, both with respect to non-tariff and tariff barriers; (b) improving trade rules to provide a more predictable trading environment in which businesses can operate; and (c) improvements in the trading system itself which could be designed to have a similar effect – an example of this latter element would be improvement in the General Agreement on Tariffs and Trade (GATT) dispute settlement system.

Multilateral negotiations would offer us the prospect of improving market access for Canadian products to our traditional partners and with important growth markets in developing countries, particularly in Asia and in Latin America. Of course, the principal component of any multilateral negotiation for Canada is a negotiation with the United States and there are many things which we would wish to accomplish in that context.

But there are major opportunities elsewhere as well. Many of our exports to these other markets are vital to different regions of the country. In the Canadian federation a specific region's view of the world does not always correspond to a nationally aggregated picture. Many Canadians consider the trade relationship with Japan and the Pacific to be vital, particularly for producers of certain commodities. For others, the natural market that would allow the emergence of a more prosperous fisheries industry, for example, is Europe. The challenge for Canada is to achieve, through a new trade round, greater access to these enormous markets as well as to those of several of the newly-industrialized countries.

Some of the emerging issues on the likely agenda for the new multilateral trade negotiations round include:

- (a) trade in agriculture, where better discipline on trade-distorting subsidy practices would be a key objective;
- (b) dealing with barriers to trade in natural resource products, including fisheries, forestry, non-ferrous metals and minerals and petrochemicals;
- (c) the possibility of developing better discipline on the use of subsidies, in general, particularly those which cause serious international trade frictions;
- (d) the development of a possible international framework for trade in services;
- (e) the improvement of provisions of the GATT Government Procurement Agreement and the expansion of its coverage;
- (f) a safeguards understanding which would improve international discipline regarding emergency measures taken against injurious imports such as those recently threatened by the USA in steel and copper, and practised by Canada on footwear; and

- (g) improvements in the institutional framework of the GATT and, in particular, improvements to the dispute settlement system which is vital to the maintenance of the integrity of the concessions negotiated in the GATT.

It is essential to begin to strengthen further the mechanisms for close consultations between federal and provincial governments and the business community. These new trade negotiations, I cannot emphasize too forcefully, will change the world trading environment through to the end of this century. As the negotiations are engaged, clearly our consultations with you will need to become much more detailed and more formalized. We are now planning the mechanisms to receive your views and pursue the necessary consultations. It is not too early for you to begin to provide us in government with a clearer idea of the trade-related barriers (non-tariff and tariff-related) affecting your export performance and which Canadian products would likely benefit from a more liberalized world trading system. In this task, I ask you to look forward – beyond the short term – to the kind of trading system you will need by the end of this decade.

In conclusion, I can assure you that there are no higher priorities for the Department of External Affairs than export development and preparation for new trade negotiations.

You have heard earlier this morning from Ray Anderson on the Department's major efforts and continuing activities to offer exports support programs and services best suited to their needs and changing conditions in the marketplace. He told you, as well, about the organizational set-up of the Department.

The uncertainties and speculations that may have prevailed recently about the possible relocation of the international trade responsibility within the government have been cleared and put to rest. The Prime Minister has decided that there shall be no move or changes in mandate or ministerial responsibility for international trade, and that all energy should now be focused on getting the job done. I can tell you that we are under very specific orders to make current arrangements within government work better in support of the business community and our trade and export interests.

I, for one, certainly intend to see that External Affairs improves and plans its full role to that end. This Department is at your service. I believe that we should be in a better position to serve you than ever before. My objective is to deliver on this and I want to hear from you in terms of both what we are doing right and how we might improve.

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