



Statements and Speeches

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THE TRADE CHALLENGE FOR CANADA IN THE 1980s

An Address by the Honourable Edward Lumley, Minister of State for International Trade, to the Toronto Chamber of Commerce, June 22, 1982

I can think of no greater priority than to increase the awareness of Canadians to our tremendous dependence on the international markets of the world. Our exports account for almost one-third of our total gross national product (GNP). Of the major industrialized countries represented at the annual economic summits — most recently at Versailles — none is more dependent than Canada on the trade dimension for economic growth. Just to illustrate, it is estimated that more than two million Canadians are directly involved in the production of goods for export — that is 20 per cent of our total work force. Our major export industries are also our most efficient producers. They command the best prospects for future growth and, most significantly, for the generation of profitable jobs for Canadians.

Stress in trade
environment

We all know that the current trading environment is severely strained. The persistence of unprecedented high interest rates poses a major burden for industry, curtailing plans for expansion or adaptation and the wherewithal for the kind of productive investment which will ensure that our firms remain competitive. There is no question but that a general economic recovery — one inspired by greater confidence in the money markets — offers the most fundamental respite to constraints on trade.

It has often been said that when the United States economy catches cold we in Canada contract pneumonia. Our current circumstance is dramatic witness to that commentary. For relief we must look to a recovery in the U.S. This is not to suggest that we do not have responsibilities and challenges to address here in Canada but simply to underline a very obvious fact of life for the Canadian economy. We know that a recovery in the U.S. will pay immediate dividends to our own economy. With almost two-thirds of our trade with the U.S., we know as well, that it is in terms of trade that such dividends will be most visible.

We recognize that the international trading system is not perfect. As my American colleague the Honourable Bill Brock put it recently "None of us is without sin" in that regard. While new opportunities have opened up, impediments remain. We in Canada have found it necessary to retain relatively high levels of protection for certain sensitive areas of production.

As a result of the prolonged recession the government has been under extreme pressure from all parties in Parliament, from several provincial governments, and from labour and business alike to move to protect industries which find themselves vul-

nerable to the triple onslaught of economic decline, high interest rates and extreme competition from imports. We obviously are very concerned about these industries and, in some cases, are considering ways to protect them from serious injury and from unfair trade practices.

In a period of prolonged recession it is imperative that major trading countries demonstrate the sensitivity and will necessary to produce mutually satisfactory solutions. If we do not work together to alleviate these pressures the consequences could be disastrous.

We are determined not to ignore the lessons of the 1930s. We must not place our economy in a strait jacket which will prevent adaptation and real growth in the 1980s. "Beggar thy neighbour" tariff walls, artificial props for inefficient sectors and band-aid solutions do not provide effective or convincing alternatives. Canada, because of our dependence on trade and our small domestic market, has much to lose and little to gain through bilateral trade wars or rigid concepts of reciprocity. It is as simple as that.

**Open trading
important**

I remain convinced that trade can be the engine of growth, that expanded trade opportunities provide a firm basis for new investment and more jobs. I would like to think that many of you share this view and attach priority to the maintenance and strengthening of an open trading environment.

It is worth noting that we continue to generate a merchandise trade surplus — a surplus which is vital if Canada is to continue to pay its way in the world. As a matter of fact we have had a trade surplus for 24 consecutive months — a record matched by very few countries in the world. In 1981 we ran a merchandise trade surplus of \$7.4 billion and, in the first four months of 1982, our seasonally-adjusted trade surplus was in excess of \$5 billion. Contrast this with the trend for our major trading partners — the United States and the European Community — which had merchandise trade deficits running in the tens of billions of dollars in 1980 and 1981.

Let me cite a specific example of how the Canadian economy has benefitted through trade. In 1965, before the conclusion of the Kennedy round, Canada exported 20 per cent of its production of machinery and equipment and 54 per cent of Canadian requirements were supplied by imports. In 1980, 50 per cent of Canadian production was exported and 65 per cent of domestic requirements were filled by imports. Over the last 15 years domestic production of machinery and equipment in Canada, which amounted to \$8.6 billion in 1980, has been increasing at about the same rate as the overall domestic market, that is a real average annual growth rate of about 5 per cent. Exports have been the fastest growing component in the area with growth of about 8 per cent annually.

This sector provides a clear example of how Canada has been able to adapt to

international competition in a way which has brought benefits both to Canadian producers and users of machinery and equipment. The rationalization of this industry has meant increased export revenues for Canadians and has allowed Canadian industry to benefit from being able to use more efficiently-produced machinery and equipment. This, in turn, of course, has enhanced the international competitiveness of other sectors of the Canadian economy.

This is a year of opportunity and for attention to trade. I would like to tell you how we intend to respond and why.

I will soon place before my Cabinet colleagues two important documents: one will be a major review of Canadian trade policy. I believe this review will allow me to underscore to the Cabinet the key role played by trade in the Canadian economy. It will provide the basis for any modifications in Canadian trade policy needed to take account of the environment we face in the 1980s.

A second paper will outline the approach which Canada should adopt at the General Agreement on Tariffs and Trade (GATT) ministerial meeting this coming November. I will be endeavouring in the weeks ahead to engage Canadians in these matters to provoke a broader discussion of the issues of concern and the areas of potential.

Yesterday in Ottawa, at a federal/provincial trade ministers meeting, I had an opportunity to discuss these issues with my provincial colleagues and to learn first-hand their concerns, their ideas, and their priorities about a trade strategy which will benefit all Canadians.

I would like to concentrate today on the priorities we see meriting attention at the GATT ministerial in November. As you know the GATT sets out the contractual basis for most of Canada's trade relations. It has served us well. I believe it provides a framework in which Canada can defend and advance its interests more effectively than through any bilateral agreement. It is a matter of absolute priority that we strengthen the GATT.

The November ministerial, which incidentally Canada will chair, is the first such meeting since 1973. While it is not intended to launch a major new round of trade negotiations it is expected to agree on a work program, a trade agenda for the 1980s so that issues of concern and areas of particular interest can be addressed in ways to strengthen and make more relevant, hence more credible, the system as a whole. We attach the highest priority to a successful result at this meeting and are preparing our case on issues of special concern to Canada.

Basically we want the international trading community to come to grips with a number of problems which were not dealt with or which were not handled in a satisfactory manner in earlier GATT negotiations.

1) The emergence of the newly-industrialized countries as a major force in the world economy is a case in point. These advanced developing countries (such as Korea, Brazil, Singapore) have benefitted enormously from successive negotiations under the GATT. But they have not subjected their own import regimes to the same discipline that has been accepted by the developed countries. Canada's trade with these countries has increased dramatically over the last decade. Our exports to the newly-industrialized countries in 1971 amounted to less than \$900 million annually. This figure had increased to almost \$6 billion in 1980. I consider that a key priority in the 1980s must be to ensure that these countries accept more obligations under the GATT. They must make a contribution to the international trading framework commensurate with their stake in the system. This is a goal we share with the other developed countries and, I might add, with certain of the lesser developed countries as well.

2) Efforts to negotiate a safeguards agreement in the Tokyo round failed. Such an agreement, which would elaborate on the GATT provisions regarding emergency protection against imports causing serious injury, would provide a more acceptable and balanced framework for such action. A system in which the larger trading countries operating outside GATT rules can strike advantageous deals with supplying countries to protect their own market is not in Canada's interest. We want to see a system which requires everyone to follow the same rules and which would ensure that Canadian exports were not acted against frivolously or unnecessarily by our partners. At the same time it must allow emergency action when it is fully justifiable.

**Commitment
essential**

3) The dispute settlement system in the GATT has come under increasing strain as trade disputes have multiplied over the last few years. This system is critical to the effective enforcement of GATT rights and obligations. We must renew our commitment to make it work effectively. All parties to the GATT, large or small, must be prepared to abide by the results which emerge in Geneva. Now that the United States' Domestic International Sales Corporation Programme (DISC) has been found by the GATT to be in violation of United States' obligations, we will be pressing the Americans to bring this system into conformity with GATT rules. American failure to do so will only weaken their efforts to further strengthen the GATT and to extend GATT discipline into new areas of international trade such as services.

I would add that this government publicly stated its willingness to have a GATT panel determine whether American complaints about certain Foreign Investment Review Agency (FIRA) practices were inconsistent with Canada's GATT obligations. We thought this made good sense. It helped defuse a major bilateral problem. Both sides find it easier to respect a judgment reached by an international body.

4) I believe we should also be seeking improved and more balanced rules governing trade in agricultural products. We must seek better discipline over the use of export subsidies by the European Community whereby it dumps large surpluses on inter-

national markets. Such European practices hurt producers in the more efficient agricultural producing countries. At the same time they pose an inordinate burden on European taxpayers.

5) We also seek to strengthen the existing GATT codes where Canada has a particular interest in obtaining broader access for its products and in improving the rules of international trade. The Aircraft Agreement, for example, has served us well and has been strongly supported by the Canadian aerospace industry. This agreement calls for negotiations by the end of this year. Our approach will be to seek to expand the coverage of the code and to maintain a balance of reciprocal advantages taking into account specific trade interests of the Canadian industry. A further objective will be to have aircraft manufacturing countries, which are not signatories to the code, accede to it.

6) We will look as well to action providing better access generally for further processed resource products. This is a major area in terms of our current trade profile. It is also a sector with the highest potential for development in the next decade. Our concerns regarding barriers to trade in fisheries products will also be registered.

These are some of the issues we will be grappling with as we work towards the GATT ministerial meeting in November. At that meeting the contracting parties to the GATT should reconfirm their faith in the multilateral trading system and their will to make it work effectively. However, if the meeting is to be successful, it must go beyond mere political rhetoric. Ministers must be able to demonstrate to their respective publics that real progress can be made on the important trade problems confronting the world community. Above all, we must ensure that the system is relevant to current concerns and can respond to constraints on economic development in Canada.

Other countries will, of course, also have their own list of items they will wish to see addressed in the work program and at the meeting itself. The United States has come forward with several proposals for taking the GATT into new areas of activity. Specifically, they have identified international trade in services, trade-related investment issues and high technology as areas in which they would like to see the GATT undertake a study program. We are in the process of identifying particular Canadian interests in these areas.

Regarding services, for example, an interdepartmental task force was established about a year ago and has conducted extensive consultations with the provinces and the private sector. I expect that we will be prepared to go along with American proposals to study problems relating to trade in services in the GATT.

As for the American proposals regarding trade-related investment matters, we have said that such a program of study would be unbalanced unless it were to address at the same time the behaviour of multinational enterprises.

In trade in high technology goods, Canada, along with other countries, is interested to examine closely the nature of the American proposal in order to determine whether and how this problem might be addressed in the context of GATT.

The Japanese, for their part, have adopted a somewhat cautious approach towards the ministerial meeting while being generally supportive. I suspect they see it as a safety valve which will help somewhat to alleviate the international pressure on them from all the trading partners to liberalize their own import regime. Japan recognizes that it has a major stake in preserving the open multilateral trading system.

The European Community is still busy digesting the results of the Tokyo round and its own enlargement. They also feel somewhat threatened by what they perceive to be an ambitious American trade policy. However, the Community has been playing its part in preparations for the ministerial meeting, recognizing that it is critical to the future of the trading system that that meeting be a success.

**Canadian
guidelines**

Our game plan for the GATT ministerial and for the broader trade strategy is taking shape but the measure of success for both will be the extent to which our objectives relate to the problems and the obstacles you in business encounter. The credibility of the system is at stake. With that system rides much of our potential for sustained future growth, and, most importantly, for an expansion of profitable jobs for Canadians. Our basic guidelines are as follows:

- We in government are prepared to continue to seek improved market access abroad for efficient Canadian producers.
- We will work actively to ensure that our trading partners live up to agreements struck with them.
- When our trading partners frustrate access conditions which affect Canadian companies adversely, we will challenge such measures.
- We will continue to provide a variety of aids to exporters through our export development programs.
- We will also, to the best of our ability, ensure that Canadian exporters receive the same credit facilities as are available to their competitors. (I should note, however, that we are in the forefront of those countries seeking to improve the discipline - namely to reduce the subsidy element - of export credits.)

I invite the private sector to do its part. I want our exporters to take full advantage of concessions obtained through trade negotiations. Our department stands ready to help individual businessmen to identify markets and to help resolve trade barriers which may inhibit their sales in foreign countries.

We need your ideas and your support to strengthen and improve the international trading system in such a way as to serve current and long-term Canadian interests. I am convinced that, by working together in the area of international trade, we can help revitalize the Canadian economy in the interest of all Canadians.

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