

# *Statement*

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NOTES FOR AN ADDRESS BY  
THE HONOURABLE ROY MACLAREN,  
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TO THE ROYAL INSTITUTE OF INTERNATIONAL AFFAIRS  
"THE OCCIDENT EXPRESS: TOWARD TRANSATLANTIC FREE TRADE"

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Since the end of the Cold War in 1989, political leaders have been searching for a new world order. This is curious, as the outline of such an order is in fact already taking shape before our eyes. This new order is being driven not by military or geopolitical considerations, but by the immutable forces of economics and technology. Its leaders are not generals or statesmen, but a vast army of entrepreneurs, innovators, investors and consumers who are fashioning a borderless world from the bottom up.

What is now missing is not a sense of where the world is headed over the coming decades, but the larger vision of how to get there. In years past, Europe and North America played a central role in building the new multilateral trading system, culminating in the recently formed World Trade Organization. We have each pursued deeper regional integration, first in the European Union and more recently in the NAFTA [North American Free Trade Agreement], which has, in turn, contributed to trade liberalization in Asia, in Latin America and beyond. But today Europe and North America appear strangely paralysed, seemingly unable to see a clear path forward, yet conscious that globalization is rendering the status quo obsolete.

The time has come to take the next logical step and construct free trade across the Atlantic. Already trade and investment flows justify a more structured economic framework – some \$250 billion in two-way trade, \$460 billion in investment, reflecting a combined transatlantic output of over \$2 trillion. Nor do statistics capture the essential quality of our economic relations; the extent to which North America and Europe are at the epicentre of a growing web of transborder investment, technology and ideas – the new arteries of the burgeoning global economy. For many industries, the existing continental arrangements, whether pan-American or pan-European, are simply no longer broad enough to encompass their interests. Global firms, operating in global markets, increasingly want global rules.

Beyond our trade and investment ties, Europe and North America remain the core of the global economic order. We share in principle, if not always in practice, a commitment to open markets and to the rule of law. Our political institutions, legal systems and cultural norms exhibit the same historical and intellectual roots. And in our two respective continental endeavours, in the European Union and to a degree in the NAFTA, we have created unique structures for regional economic co-operation and integration – structures that can, with imagination, provide logical building blocks for a yet more ambitious bridge across the Atlantic. Ours is a relationship that could be deepened more easily and more quickly than that between any other regions of the world.

But perhaps the real impact of transatlantic free trade would be felt in the world beyond. There is a palpable reluctance among some in the multilateral order to move much beyond the

commitments of the Uruguay Round — this despite the need to keep pace in the 1990s and beyond with accelerating global integration. For countries unwilling to liberalize further — for those professing fatigue — the message would be clear: that the Atlantic community has a dynamic vision of its future, that we are committed to additional economic liberalization, and that we are prepared to move forward on our own if necessary. As long as the goal is not to replace the multilateral system — still less to set up a defensive bloc — but to move beyond the commitments that we accepted in the World Trade Organization, then a new free-trade partnership of Europe and North America could set in motion a competitive dynamic to reduce barriers worldwide. In short, transatlantic free trade could revitalize the totality of the global system — and begin the critical process of bridging potentially exclusionary blocs.

This is not to minimize the challenges of reaching free trade across the Atlantic, especially in the wake of the bruising Uruguay Round negotiations. Yet it is precisely because there are outstanding issues to be resolved that a major new initiative makes sense. For this reason, we should set our sights high — on a full free-trade agreement or perhaps even, as Sweden's Trade Minister Mats Hellstrom recently suggested, on a common economic area. Industrial tariffs in most sectors are already low — on average between 2 and 3 per cent. We should be able to commit to phasing out all remaining industrial tariffs by agreed dates, leaving more detailed negotiations to those issues such as agriculture or textiles where agreement will be more difficult. Let Europe and North America be the first to recognize that the age of the tariffs is over and to move on to more pressing work.

British Foreign Secretary Douglas Hurd has suggested that we should now begin to deal seriously with non-tariff barriers. He is absolutely right. Increasingly, the real impediments to market access are buried behind national borders — in a myriad of differing standards and regulations, restrictive procurement practices, licensing procedures, and investment restrictions. More worrisome, these differences in domestic policy frameworks will be the growing source of interregional conflict — or "system friction" — in the years ahead. Here, too, progress might be more meaningful in a transatlantic context rather than on a broader, less homogeneous front. We have already agreed in principle to seek a high-quality investment agreement under the umbrella of the OECD [Organization for Economic Co-operation and Development]. The Vice-President of the European Commission, Sir Leon Brittan, has suggested that we work toward the mutual recognition of standards, especially in the sectors that will define the global commerce of the future such as information technology and telecommunications. Given the similarities of our legal systems, the transatlantic context might also lend itself to ambitious work on the competition/trade policy interface. Nor is the above by any means an exhaustive list of the "building

blocks" that could move the transatlantic agenda forward. The challenge will be to assemble a package of benefits and concessions - a single undertaking - to build collective momentum.

There is also the question of how to structure the negotiations between the European Union (EU) and the NAFTA. Here, the wrinkle is that the NAFTA is not a customs union. It is conceivable that, should Canada, the United States and Mexico be unwilling to accept the same levels of discipline in such areas as services, intellectual property or investment, the European Union would be left to engage in three separate bilateral negotiations - a precedent, however, that the EU had already established several years ago with EFTA [European Free Trade Association] countries. Yet surely the inherent advantages of a full NAFTA-EU deal easily outweigh these mechanical concerns. Beyond the obvious economic gains of bringing North America as a whole to the table, there is a simplicity - and symmetry - in linking an integrated Europe with an increasingly integrated North America; a simplicity that might be lost in a more limited European Union-United States context. For example, the missed opportunity to make headway in the increasingly byzantine area of rules of origin immediately comes to mind. More generally, an EU-NAFTA agreement would reinforce more clearly the totality of the transatlantic community. As the European Union and now the NAFTA move toward deeper integration, it only makes sense that the transatlantic relationship - the "Atlantic community" - should deepen as well.

A more fundamental question - and the one most worthy of attention - is whether transatlantic free trade would help or hinder the World Trade Organization. The answer really depends on the objectives of the agreement we craft. In basic macro-economic terms, the more ambitious the undertaking, the more trade-enhancing the results. It should not be forgotten that Article 24 of the GATT [General Agreement on Tariffs and Trade] - which stipulates that a free-trade area should cover "substantially all trade" - was designed, not to discourage comprehensive free-trade areas, but on the contrary to discourage the limited sectoral approaches that some might be tempted to pursue at the expense of other trading partners. More generally, if we have learned anything from the events of recent years, it is that dynamic, outward-looking regionalism can be a powerful engine for worldwide trade and investment liberalization. In an era when economic barriers are becoming so many self-inflicted wounds - a sure way of being isolated from increasingly global investment and production decisions - the race is to liberalize farther, faster. A vast transatlantic free-trade zone would create an irresistible competitive dynamic, the cumulative effect of which would be to advance the frontiers of worldwide free trade. As such, it would be the most effective way to ensure that Europe and North America remain an engine, not a brake, in the total global system.

In the end, this debate is as much about our global competitiveness and our global economic leadership as it is about transatlantic relations. Here we should not underestimate the role that ideas – what was once inelegantly described as "the vision thing" – play in building momentum. In the mid-1980s, the idea of a single European market – Europe 1992 – provided a critical jump-start to economies and societies languishing in recession. An even more ambitious vision of an integrated transatlantic market would provide at least as much impetus to a North Atlantic renaissance. The argument that the difficulties are simply too intractable should be turned on its head. What are the economic and social costs of not deepening our relations? What are we losing in potential production and additional jobs? Which market inefficiencies and rigidities are we needlessly leaving in place? Have we really taken transatlantic relations as far as they can go?

Recent concerns about continental drift – and not just in the economic sphere, but in security and political matters as well – suggest that the answer to all of these questions is no. Henry Kissinger has noted recently that "it is probably no longer possible to build an Atlantic relationship exclusively on security issues." I would go further and argue that some form of economic underpinning is the *sine qua non* of a sustainable relationship. In this respect, Europe's experience is instructive. When Jean Monnet and others first dreamt of building a European community they started from the bottom up. That is to say, theirs was a structure founded first on free trade, building progressively over the years toward greater levels of economic and political integration. From the original Coal and Steel Community, through to the Treaty of Rome, the Single European Act, the 1992 Single Market initiative, the Maastricht Treaty and now the pending Intergovernmental Conference, Europe has become more integrated, more co-ordinated, and better positioned to play again its full role on the world stage. What Europe has discovered is that an economic architecture can provide the girders for a larger political purpose and wider global influence. With the waning of the Cold War and the declining saliency of Western security, it is now the Atlantic community that must move from a relationship defined by common security imperatives to one increasingly defined by shared economic interests – or risk withering away.

So where do we go from here? The transatlantic debate is well under way. In both Europe and North America there is a growing consensus that the relationship must grow. Prime Minister Major of Britain and Foreign Minister Klaus Kinkel of Germany are only two who have recently advocated the trade linkage. Now we are entering a more difficult phase: determining what kind of new relationship we envisage. In this respect, Sir Leon Brittan and most notably Douglas Hurd have taken the debate an important step forward by examining many of the complex questions involved in

reinventing Atlanticism – questions that will demand thoughtful study and thoughtful answers in the months ahead.

What is becoming clear is that we need a context – a forum – within which we can begin to give expression to our common desire to move the transatlantic relationship forward. We should consider forming a transatlantic Eminent Persons Group largely or exclusively from the private sector to begin to develop a more detailed road map for the way forward. In Germany, Canada, Britain and the United States – to name but a few – there are already national groups at work exploring how the increasing momentum toward transatlantic free trade can best be channelled. An Atlantic Eminent Persons Group might begin to examine trends in trade and investment flows across the ocean – the outlook, say, for the medium term to the year 2000. The group could also identify tariff and non-tariff constraints that should be addressed by governments. And it should broadly identify priorities for future trade negotiations, including examining the gaps between existing structures or agreements. Such a grouping might report by June 1996 to a meeting of ministers or leaders representing Europe and North America – an Atlantic Summit – so that we can begin to discuss these issues around the same table.

If the Cold War era was shaped by a world divided, the new global order will be shaped by a world converging, oftentimes at a dizzying pace. This poses its own challenges as well as opportunities. The diffusion of economic power, the rise of Asia, the advent of great regional blocs – all are manifestations of a global system in which we are at once more interdependent and less cohesive. In this sense, the challenge we face in the post-Cold War era is not unlike the challenge that has confronted the international system in the wake of all great upheavals: how to create a sense of collective purpose – a unifying vision – in the absence of a unifying threat? After the Napoleonic wars, it was the Concert of Europe; after the Great War, the ill-fated League of Nations; after the Second World War, Bretton Woods and the United Nations system. What is to be the new architecture in the aftermath of the Cold War? Where is the glue?

Last year, when Prime Minister Chrétien and I spoke about building an economic bridge between Europe and North America, the idea was treated as almost whimsical – at best a distraction from more pressing interests in Asia and Latin America, at worst a romantic echo of a bygone era. Today I can scarcely read the international press without finding some article or commentary on the transatlantic link. Perhaps this is because the transatlantic relationship is perceived, if only intuitively, as a cornerstone – and a foreshadowing – of relations in the broader global order. We are a set of countries that must ultimately stand together, must work together, must continuously reinforce our shared global interests. To the extent that technological change is altering the foundation of our post-war relationship

and creating the potential for friction, we need to rediscover the ties that bind. It is not that deeper transatlantic co-operation is an alternative to broader global co-operation; it is rather that a strong North Atlantic architecture is central to our ability to manage and advance a larger global agenda.

President Kennedy once said of the Canada-United States relationship that "Geography has made us neighbours. History has made us friends. Economics has made us partners. And necessity has made us allies." The same holds true for all the countries that share the North Atlantic. If we in Europe and North America can find the will to progress in our relationship, it will be good news, not just for the Atlantic community, but for the world.

Thank you.