

Statement

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**NOTES FOR AN ADDRESS BY
THE HONOURABLE ROY MACLAREN,
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AT THE STOCKHOLM TRADE POLICY SEMINAR**

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Even after the multilateral trade system's great leap forward in 1993 - marked by the successful conclusion of the Uruguay Round and the creation of the World Trade Organization [WTO] - the issue of regionalism refuses to go away. Thirty years ago the European Community stood out as a unique experiment in regional integration in a trading system otherwise dominated by the GATT [General Agreement on Tariffs and Trade]: today it seems almost commonplace in a world of NAFTAs [North American Free Trade Agreement], TAFTAs [Trans-Atlantic Free Trade Agreement], APECs [Asia-Pacific Economic Co-operation forum] and FTAAAs [Free Trade Area of the Americas]. Some one hundred bilateral or regional groupings had been identified by the World Trade Organization as of last year, and almost each month brings word of an additional or expanded alliance. It is a process which seems sharply at odds with the stately, almost Cartesian, unfolding of successive GATT Rounds since 1947. This dynamism, in creating additional regional or sub-regional arrangements, gives rise to the fear among some that the global trading system may be in danger of unravelling - resembling Yeats' vision of the Second Coming, "Things fall apart: The centre cannot hold; mere anarchy is loosed upon the world."

Yet so far regionalism has not created an Orwellian world of warring trade blocs. Building blocks would be a more apt metaphor in a trading system that has had to become more sophisticated - and more complex - as a consequence of greater economic interdependence. This complexity is reflected in the diversity of regional groupings themselves. The European Union [EU] remains the most ambitious undertaking, with its broad scope and supra-national powers. Although the NAFTA is less ambitious, here too members have pushed forward in such areas as investment and services where our degree of economic integration seemed to call for a more comprehensive regime than the WTO could provide. The level of sophistication possible in an FTAA or APEC will be different again, if only because of the wide disparity in economic systems. Yet the basic idea remains the same: that regionalism offers a way for countries to resolve issues that would be more difficult to resolve in the wider WTO context.

However, the search for broader and deeper rules does not alone explain the current explosion of regionalism. There are more powerful forces at work. Globalization has placed irresistible pressure on all economies to liberalize - unilaterally if necessary, multilaterally if possible. In a world where technology and capital move freely in search of the highest return, protectionist barriers have become so many self-inflicted wounds - a sure way of isolating oneself from the emerging global economy. Countries rush into free trade arrangements to increase their competitive edge, only to find others joining the race for fear of losing their access to investment, technology and markets. So far the United States has been the most powerful force pushing for deeper regional arrangements through its recent initiatives across the Pacific and in Latin America. But the European Union has also been seeking to expand its own spheres of

free trade in Central and Eastern Europe, North Africa and South America, while countries such as Canada, Australia, Chile, Brazil and others have been equally active players at the regional and sub-regional level. Many of these initiatives reflect a wider process of competitive liberalization – all are being driven by a private sector often well in front of the policy makers.

Regionalism has not slowed the advance of worldwide liberalization; it has accelerated it. The removal of barriers within regions has made member economies more competitive which, in turn, has made domestic industries and interest groups more willing to embrace additional global liberalization. Regional agreements have also been crucibles for innovation and experimentation, the results of which have frequently spilled over into other forums. Witness how the European Community's work on government procurement impacted on the Tokyo Round; or how the Canada-U.S. Free Trade Agreement's investment provisions influenced thinking in the Uruguay Round. Most important, regionalism has been a source of creative tension in the global system as a whole, forcing the pace of other regional and multilateral initiatives. It is not coincidental that the Kennedy Round moved forward with the creation of the European Community, the Tokyo Round with the Community's first enlargement, and the Uruguay Round with the Single Market initiative and with the NAFTA.

Yet the very dynamism of this process can also pose serious challenges to the coherence and stability of the global economy if regionalism begins to dwarf the more fundamental multilateral system. If we fail to answer how the blocs relate to one another and, more important, to the World Trade Organization, then there is a real danger that "Things fall apart." At a minimum, there are the unavoidable administrative problems generated by an increasingly tangled web of bilateral and regional trade agreements. Exporters already navigate a maze of preferential tariffs – tariffs which are often low to begin with, and which can impose transaction costs on businesses out of all proportion to the purported benefits to protected industries. Byzantine content requirements and restrictive rules of origin appear even more anomalous at a time when the global integration of production, distribution and investment is blurring the nationality of firms and products. How, for instance, can we presume to determine if a Canadian-built Honda automobile has 62.5 per cent domestic content when we cannot answer the basic question "Who is us"?

A more fundamental concern is the one identified by my distinguished compatriot, Sylvia Ostry: the issue of system friction. As we strip away external barriers to trade, we begin to expose societal differences – in our financial systems, legal norms, even governmental structures – which can influence market access. Where once trade policy was about regulating commercial

relations among national economies, principally through the negotiations of border tariffs, it is now about establishing the ground rules of a transnational economy in areas that were once quintessentially domestic: standards and regulations, investment, and competition policy. Yet it is precisely because these issues cut deeply into traditional notions of sovereignty, and raise important questions about the fabric of our societies, that they are proving so difficult to resolve. Globalization is a great leveller. Fierce competition among economic systems, as well as among economies, is exerting huge pressure for structural convergence. In this sense, market forces may gradually blunt the sharper edges of system friction. But relentless pressure for harmonization will itself be a source of tension in the years ahead – as demonstrated by the way that the current debate over global capital markets or international labour standards is being played out at the domestic level. The concern is that regional integration may entrench systemic differences – in standards, in regulations, in competition laws – making these issues that much more intractable at the global level.

Efforts to resolve deeper systemic friction will, almost by definition, have to advance on an inter-regional – as much as an intra-regional – basis. Thus, a robust multilateral system remains of central importance, in part to manage relations among the blocs. Yet the question remains: how can the World Trade Organization play that role effectively – how can it continue to provide stability to the international order – if it is being overshadowed by increasingly integrated and powerful regional arrangements? The wider the gulf between multilateral and regional agreements, and the more fragmented the system, the more difficult it will be to identify a common ground of rules and procedures. The more our economic interests are defined regionally to the exclusion of the multilateral order, the more difficult it will be to assemble a critical mass of countries willing to move ahead. Although the Uruguay Round adequately addressed the issues of 1982, there is a growing need to address the issues of 1995 and beyond – a need that risks being filled by regional arrangements alone. The recent U.S.-Japan clash over automobiles reveals how powerless even a strengthened dispute settlement mechanism can be when it is not clear that the rules exist.

It is unlikely that any attempt to impose additional restrictions on the growth and structure of regional arrangements will by itself solve the issue of coherence in the global economic system. Nor is it clear that such restrictions are desirable when regionalism can be such a powerful engine of liberalization. A better approach would be to recognize that the fundamental issue is not regionalism itself but the need for the multilateral system to keep pace with global and technological change, and to concentrate on building a consensus to move ahead. At a minimum, there is a need to demonstrate progress on the "built-in agenda"

of the WTO, especially after we stumbled so badly over financial services. Myopia or, worse, complacency will not only weaken our chances of progress in the future negotiation of telecommunications, government procurement or rules on technical barriers; it will further weaken the credibility of the WTO system as a whole.

The first WTO ministerial conference in Singapore at the end of next year is also emerging as a critical litmus test. There is a growing expectation that this first ministerial meeting will outline a forward-looking work program for the new organization, if not launch a new Round. One issue on the agenda should be further work on standards and technical barriers to trade (TBTs). With the reduction of barriers at the border, these internal "walls" have become the next refuge of protectionism. A second critical area is investment. The OECD [Organization for Economic Co-operation and Development] has taken an important step forward by launching a new negotiation for a Multilateral Agreement on Investment (MAI). But if anything is truly "globalized" in the international economy, it is investment. We have yet to answer the critical question of how a narrower OECD agreement can be translated into the wider global instrument we need. The third interconnected issue is trade and competition policy. Although there is a growing consensus that global rules are needed in competition policy, there is little agreement over the form such rules might take. We first need to do the intellectual spadework in forums such as the OECD and the WTO. It took the trade policy community two decades to grapple with agriculture - there is no sign that the structural issues raised by competition policy will be any less complex. And as we learned with agriculture, none of these issues can be solved as separate problems in separate forums at separate times - each forms part of a seamless progression towards freer trade.

Finally, a forward-looking agenda would be incomplete unless it includes, as an objective, the elimination of remaining barriers at the border. If we have already agreed to the elimination of tariffs in Europe, in the NAFTA, in the Western Hemisphere, in APEC, in Mercosur, and possibly across the Atlantic, it does not require a huge leap in logic to envisage a world without tariffs. Among other things, moving beyond tariffs would resolve many of the conflicts that arise between regional and multilateral systems. The problem of multiple rules of origin would obviously disappear; so too, in some respects, would the conflicts associated with MFN [most-favoured-nation] and Article XXIV of the GATT. Reflecting the commitments already made in existing agreements, why not contemplate in the WTO the elimination of all industrial tariffs by specified dates - first, perhaps, among industrialized economies, next among other APEC and FTAA members, and finally for the rest of the world? Singapore is as good an occasion as any to begin to sketch out the vision of global free trade. It is certainly time to acknowledge that the age of the

tariff is finally ending, and to get on with more pressing business.

Even with an ambitious WTO work program, regional agreements will remain a central feature of our economic landscape. The point is that regionalism and multilateralism do not have to be irreconcilable. Bilateral, plurilateral and regional deals are necessary to resolve many of the complex issues and relationships associated with deeper integration, which cannot yet be tackled directly in the WTO itself. At the same time, a strong multilateral architecture is necessary to provide coherence to the system as a whole and to prevent regionalism from spinning out of control. The key is to ensure that regional arrangements build upon the multilateral system - providing deeper levels of rule making - without acting as alternatives. They must be trade-creating, not trade-distorting. And they should be fundamentally open to any country prepared to accept deeper levels of discipline and integration. In other words, regionalism should be multilateralized whenever possible.

We also need to focus on the question of how the various blocs interact and how, when rules and structures overlap, common threads might be drawn together. Is there potential for new kinds of trans-regional arrangements that can provide bridges between the blocs - what I have described elsewhere as a form of WTO plus? Already a step has been taken in this direction with the decision to negotiate a high quality investment agreement in the OECD. Similarly, deeper integration in areas such as standards, telecommunications, or competition policy could prove more manageable in a transatlantic context. We are perhaps reaching a point in economic relations where geographical proximity is becoming less salient to economic integration than structural symmetries. We are also reaching a point where rule making will concentrate increasingly on the deeper co-ordination of government policies and regulations - a process which, in theory, does not imply preferential relationships so much as harmonized relationships. Should we be examining how agreements of this type might be incorporated better into the WTO system?

Regionalism should not be an end in itself; it should contain the seeds of its own destruction. Although regionalism is helping to push the trade agenda forward in a manner and at a pace not easily achieved in the traditional multilateral framework, it is worth asking ourselves where all of these disparate paths are leading. Perhaps the rapid expansion of the NAFTA, APEC and the EU does not signal the triumph of regionalism. Perhaps expansion is a sign that regional blocs must ultimately build towards a more comprehensive regime. Perhaps we shall wake up in the middle of the negotiation of a Multilateral Agreement on Investment or an APEC and realize that we are already launched on the next Round - or whatever it will be called. The fact remains that global firms operating in global markets sooner or later

need global rules. As we move inexorably towards greater global liberalization and integration, we are slowly rendering less relevant notions of regional exclusivity. After all, in the world of truly free trade, preferential regions melt away like the snows of yesteryear.

In a sense, the most pressing problem we face in managing the global trade system is not really one of rule making but one of ruling. The age of *Pax Americana*, at least as regards global trade, is over. For a variety of economic and strategic reason, the United States has served notice that it is no longer in the business of making the world safe for the GATT; that henceforth it will view the multilateral system as merely one vehicle – albeit an important one – for achieving its market access goals. Nor does the EU or Japan seem any more willing or able to pick up the leadership mantle. And of course all three leading economies are "diminishing giants" in the face of an ascendant developing world. The question, then, is how are we going to assemble the critical mass to move ahead? Who shall lead?

Yet in the end, we can remain cautiously optimistic about the future of the global system. I do not wish to over-state the quintessential liberal notion that free trade among countries necessarily leads to peace and harmony. As Great Britain and Germany demonstrated before 1914, mutual dependence can also be a source of friction – the ties that bind can also chafe. Nevertheless, our growing economic interdependence is having an impact on our relations with one another. We are discovering that deeper economic association is possible only on the basis of stronger political co-operation and consensus. If nothing else, a cool appraisal of our economic interests – as much as the rules we weave – may persuade the global community to find a way forward.

Thank you.