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STATEMENT

94/46

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NOTES FOR AN ADDRESS BY

THE HONOURABLE ROY MACLAREN,

MINISTER FOR INTERNATIONAL TRADE,

AT THE 10TH ANNUAL CONVENTION

OF ARGENTINE BANKS

BUENOS AIRES, Argentina
August 31, 1994

Canada

It gives me great pleasure to be here with you today. I am aware of the importance of this annual meeting as a forum for the exchange of ideas among key economic decision makers both from Argentina and from abroad. I am also aware that the importance of such fora can only increase as the countries of the Americas move closer together. Thank you for your kind and timely invitation.

Until recently, the Western Hemisphere seemed poised to emerge as a free trade model for the world. In January, Canada, the United States and Mexico signed the North American Free Trade Agreement [NAFTA], building on the bilateral Canada-U.S. agreement negotiated five years before. Additionally, Mexico has entered into a free trade arrangement with Venezuela and Colombia under the umbrella of the G-3 [Group of Three]. A revived Andean pact will link the economies of Peru, Bolivia, Colombia, Ecuador and Venezuela through freer trade. And just this month Argentina joined Brazil, Paraguay and Uruguay in moving the Mercosur further toward a full common market. Bilateral and multilateral free trade is literally breaking out all over the Western Hemisphere.

These remarkable strides in recent years make it all the more curious that the next logical step — a single free trade regime for the Western Hemisphere as a whole — remains elusive. After urging a vision of free trade from Alaska to Tierra del Fuego, the United States appears to have lost its momentum. Some in the United States now talk of an undefined period of study and assessment, perhaps leading to some limited form of economic "association" between the original three members of the NAFTA and the other countries of the region. Meanwhile, the issue of Chile's accession to the NAFTA hangs in the balance. Other countries in Latin America have begun to re-evaluate their own options, largely in reaction to perceived U.S. ambivalence with regard to Chile's accession and NAFTA expansion. Not surprisingly, separate bilateral deals with the United States — or even an exclusive South American free trade area — have for some begun to look more attractive as the prospects for full hemispheric integration appear to grow dim.

None of these signals are overly constructive. A bilateral deal is certainly better than no deal at all for countries seeking access to the lucrative U.S. market. But no one can pretend that piecemeal agreements can be in any way a substitute for an integrated approach to hemispheric trade. One obvious risk is that such deals will lead ultimately to a "hub-and-spoke" model for trade and investment in the Western Hemisphere: that is, a system whereby one country has preferential access to the markets of its various partners while those relegated to the "spokes" find themselves at a permanent competitive disadvantage. The disadvantages, moreover, extend beyond the problems associated with market access. In a world where everyone is vying for limited investments, the country which holds the greatest attraction will always be at the "hub."

Nor is an increasingly tangled web of bilateral and regional trade agreements helpful from a business perspective. It leads to a confusing overlap of rights and obligations, including multiple rules of origin, that increase the transaction costs of all firms, especially small businesses hoping to export. Because of the absence of uniform content requirements, it prevents the further integration of regional production — this at a time when global trade is increasingly driven by intra-firm transactions, strategic sourcing and transnational investments. And it creates unnecessary trade diversion when non-discriminatory liberalization should remain the overriding goal.

But perhaps the most dangerous aspect of this drift toward separate bilateral or regional agreements is the risk that they might solidify into exclusionary trading blocs. It is clear that the United States increasingly cautious approach to NAFTA expansion is fuelled in no small part by the protectionist forces in the Congress — forces just barely kept at bay during the difficult passage of the NAFTA legislation last year. A failure to open the NAFTA to Chilean or Argentine accession would certainly send a negative signal to other would-be partners that the prospects for future entry are limited indeed.

Such a signal, moreover, could well reverberate beyond the NAFTA. Brazil has already launched a proposal to use the Mercosur common market as the cornerstone of a South American free trade area. As a means of breaking down barriers in the region, liberalizing trade, and drawing countries into an integrated economic space, Mercosur represents a bold and imaginative step forward, one which Canada strongly encourages. Nevertheless, it does not require a great deal of imagination to recognize that, faced with a closed NAFTA door, the countries of Mercosur would confront even greater pressure to carve out their own markets and to formalize their own distinct economic space, possibly by erecting exclusionary walls. The danger then is that the dream of comprehensive hemispheric trade would give way to the *Realpolitik* of competing regional blocs — the "them-versus-us" mentality so antithetical to further trade liberalization.

What we risk missing at this critical juncture is the opportunity to articulate an overarching trade and investment policy for the Western Hemisphere: one which reflects the openness, energy, and dynamism of our economies; one which recognizes the creative synergy that can emerge from the marriage of developing and developed economies; and one which fundamentally embraces all countries willing to commit to more intensive, more comprehensive rules-based trade.

The NAFTA could provide the foundation for such a project. With the political will, it could be the base for a free trade association that could in time include countries throughout the hemisphere and beyond. With the right philosophical commitment, it could emerge as a new kind of economic association, one defined, not by geography, but by a collective commitment to deeper levels of free trade: the nucleus of a new global GATT-plus. The underlying idea would not be to replace the existing multilateral system — still less to set up a discriminatory regional bloc — but to establish a coalition of countries willing to move further and more quickly toward the goal of trade and investment liberalization.

The original justification for the Canada-U.S. Free Trade Agreement [FTA] — and the subsequent trilateral agreement with Mexico — was really just that: to push forward in areas where our degree of economic integration seemed to call for a deeper, more comprehensive regime of rules and procedures than the GATT [General Agreement on Tariffs and Trade] could provide. In areas such as dispute settlement, investment, trade in services, and procurement, the NAFTA has already moved well beyond the kind of consensus that can be achieved in the larger and more slow-moving multilateral context. In other critical areas — such as trade remedy law — Canada is working hard with its Mexican and U.S. partners to deepen the agreement.

At Canada's insistence, two NAFTA working groups have been designated to clarify how subsidies and dumping should be dealt with in our free trade area, and how we should work to establish common rules of trade among the three NAFTA partners. This initiative reflected Canada's experience of five years of more intensive — and hence potentially more fractious — trade relations with the United States under the FTA. Although the volume of our trade with the United States has increased by some 45 per cent in the first five years of the Agreement — even while both countries endured a two-year recession — the relationship is hardly friction-free. From pork, to beer, to steel, we have experienced a series of corrosive disputes which, for the most part, expose important aspects of the initial agreement that were left unresolved — the so-called "unfinished business". Of this unfinished business, the most contentious is the continued absence of common rules governing the application of trade remedy laws — laws which really have no economic rationale in a free trade area. It will not be an easy task to agree on these issues. However, our success in this endeavour will be a good indication of whether our collective economic interests can transcend narrower domestic concerns.

Another area where the NAFTA — or a NAFTA-plus — can move forward is investment. Increasingly, servicing a foreign market means achieving a presence in that market — whether through joint ventures, strategic partnerships or direct capital investment. The trend in Canada-Argentina relations is a microcosm of this global pattern. Canadians — especially from western Canada's oil patch — have increasingly been making major investments here. Canada's stock of investments in Argentina now totals nearly half-a-billion dollars. In a world where trade is not just about *what* you make, but about *how* and *where* you make it, an advanced investment code should be one of the central rationales of an expanded NAFTA.

The NAFTA has moved a long way toward encouraging and safeguarding outward investment. In fact, the investment code in the NAFTA has provided the model for six Foreign Investment Protection Agreements that Canada has already negotiated with certain countries including

Argentina. Not only do the agreements protect investors, they also provide efficient access to markets. Why not now move toward an integrated hemispheric investment regime based on the NAFTA model?

Why NAFTA as the building block? Because the original three NAFTA partners made a commitment to "open regionalism" — the idea that this Agreement should be open to all countries prepared to accept its rules and disciplines. Through the accession clause, the NAFTA has the flexibility to incorporate additional countries or groups of countries. Why not use the NAFTA as a bridging mechanism to all other free trade initiatives in the region — the G-3, the Andean pact, and especially the Mercosur?

NAFTA accession also offers entry into an open, dynamic, high-quality agreement that is already in place — no small advantage given the protectionist forces currently arrayed against further trade liberalization in the United States. Not without scars, Canada has run the gauntlet with U.S. negotiators twice in the last five years — and we are the United States' largest trading partner. I leave it to your imagination to guess how a Chile or an Argentina, standing alone, would fair against an increasingly restive and protectionist U.S. Congress.

As for the three existing NAFTA partners, broadening the Agreement offers more than access to growing markets. It offers new partnerships and new alliances to tackle the hard trade issues of the future, as well as a more balanced negotiating framework within which to achieve these goals. Some have argued that the NAFTA should be deepened — and existing problems ironed out — before broadening is contemplated. I would argue that the broadening and the deepening of the Agreement go hand in hand.

Both Canada and Mexico have already signalled their desire to move quickly on NAFTA expansion in the Western Hemisphere. While it is critical to get Chilean accession right, there is no reason why, in time, all countries that agree to abide by the NAFTA rules and disciplines should not be welcome. Nor is there any reason to limit this expansion to the hemisphere. The accession clause of the NAFTA does not speak of "Western Hemisphere countries" but simply of "countries or groups of countries." For their part, Singapore, Australia, Pakistan and New Zealand, among others, have expressed an interest. The only real "acid test" of membership should be a commitment to submit to the disciplines of the Agreement and a willingness to work together to push the trade and investment agenda forward.

Such an evolution of the NAFTA could in turn have implications far beyond the hemisphere. It would show other countries that refuse to address our market access and market reform objectives that, in addition to our prime commitment to the World Trade Organization, this hemisphere has a long-term strategy and a clear policy direction. It would demonstrate that we at least are committed to more open, more structured, more plurilateral international economic order. It would also underline for those countries unwilling to move toward greater liberalization that they risk being left behind in the wake of dynamic regionalism.

Indeed, perhaps the principal value of the NAFTA in the long run is its potential to set in motion an external, competitive dynamic to reduce tariff and non-tariff barriers worldwide — its potential to kick-start a new round of global trade liberalization. For ultimately it is to the multilateral trading system in general — and to the newly created World Trade Organization in particular — that we must look for the long-term expansion of free trade and investment.

But the process must start here. Nowhere in the world is the drive for economic reform and liberalization more vigorous and more revolutionary than in this hemisphere. In Argentina alone you have achieved a growth rate the exceeds that of most industrial economies. You have tackled what was a huge public sector deficit and have now balanced your budget. Your rate of inflation has been wrestled down to about five per cent annually. Your privatization program and other reforms have attracted extensive private investment. And your domestic energy has found further expression in an aggressive, outward-looking trade and investment policy.

Like you, Canada shares a commitment to the principles of open, rules-based trade. Like you, we are engaged in an oftentimes wrenching process of turning our economy inside out — of building a more open, more outward-oriented economic culture. The recent record of trade and investment liberalization throughout the hemisphere is impressive. What we need now is a clear vision of where we are headed.

When the countries of the Western Hemisphere gather at the Summit of the Americas in Miami this December what shall we say to one another? Shall we give impetus to the movement toward a new trading order both for the Western Hemisphere and for the world — one which signals that we are in the vanguard of economic liberalization, that we know where we are headed, that we are committed to building the most open, dynamic market in the world? Or will our two continents again go their separate ways, as they have done to our mutual detriment in the past? As in all matters of trade, the answer for the Western Hemisphere will ultimately depend on whether we have the will to ensure that our common interests transcend our individual differences.