

# Statement

Minister for  
International  
Trade



# Déclaration

Ministre du  
Commerce  
extérieur

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## NOTES FOR AN ADDRESS BY

THE MINISTER FOR INTERNATIONAL TRADE,

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TO THE

CANADIAN SOCIETY

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Affaires extérieures et  
Commerce extérieur Canada  
External Affairs and  
International Trade Canada

Canada

My purpose today is to chart the challenge of international trade, the challenge we face together on many fronts -- bilateral, trilateral and multilateral. That challenge shows up daily -- in complex negotiations and complicated trade-offs. But beyond the detail, there is the principle, the principle of partnership in the pursuit of prosperity. To act in accordance with this principle requires leadership, not from bureaucrats or diplomats, but from politicians.

Pressures and risks abound. There is the tug of the short-term over the long-term, the search for unilateral advantage, the rush to take refuge in the status quo and the powerful pressure from those who fear loss, shun opportunity or ignore reality.

But the choice is clear: We either strive together and succeed or set out separately and fail. At stake is the survival of the economic order on which our prosperity -- and our peace -- ultimately depend.

It was by acting together on the basis of fundamental principle that the allied coalition was able to respond so effectively to Saddam Hussein's challenge to international order. We now have the responsibility and opportunity to make that episode a pattern, to maintain that impressive coalition of countries and to build other coalitions, to construct a peace as convincing and clear as the war which was won.

Other challenges to order remain. The causes are different, the symptoms vary, and the solutions will be distinct. But the rhythm of the response must be similar. Many lessons were learned in the Gulf: the power of international consensus and co-operation; the necessity to take risks in the defence of principle; and the paramount importance of leadership, which was exercised with such wisdom by this country and your President in that conflict.

There are two broader lessons. The first relates to the cause we pursued: The defence and construction of an international order where the rule of law is more than a slogan. The value of law does not stop or start with conflict. The habit of co-operation and compromise in the defence of rules in peacetime builds the shared stake in order which makes war less likely.

There is a second lesson from the Gulf war. Marshall McLuhan, a great Canadian thinker, coined the term "the global village." The Gulf war demonstrated that McLuhan's term has become our condition. We are all neighbours in this global village. But this community, like any other, can be one of co-operation or conflict. That choice is ours to make, our achievement to secure.

In matters of economic security, just as in matters of military security, the search for unilateral advantage through unilateral means is futile. The zero-sum game is dead.

In international trade, the zero-sum game has been dead for some time. There are people who deny that reality, modern day mercantilists who believe that prosperity can somehow be sustained in isolation. They believe that a country can ask others to buy its goods and at the same time refuse to accept the goods of others. We know those people are wrong by knowing history. We know the Great Depression was made much worse by protectionism. We know the results of beggar-thy-neighbour policies, policies which turn everyone into beggars eventually.

Trade and investment are not optional extras for economic policy. It is through trade that countries benefit from comparative advantage. It is through trade that our citizens can buy better products at lower prices. Trade and investment encourage competition, bringing efficiency, profits and jobs.

That is a reality now for all the world. It has long been a reality for Canada. We depend on trade for over 30 per cent of our gross national product (GNP) and more than 3 million jobs depend on trade. If Canada were denied open and predictable access to the markets of the world, our prosperity would crumble. The prosperity we now enjoy was built on trade. Our future prospects will depend on it more, not less.

The structure of a healthy trading system for Canada is straightforward. That system must be open, and predictable. And it must be constructed with others. Canada cannot impose order in international trade. Neither can we ignore it. So we must build it co-operatively.

That has been at the core of our government's trade policy since 1984. It governed our initiative on free trade with the United States and has determined our approach to the ongoing General Agreement on Tariffs and Trade (GATT) talks. It is at the heart of the announcement on February 5 that Canada would join the United States and Mexico in North American free trade negotiations.

The logic of free trade does not always make good politics. A Canadian government concerned only with short-term political gain would never nail free trade to its political platform. I don't need to remind this audience of the pervasive anxieties which run through the body politic of Canada when it comes to trade with the United States. Discussions degenerate into dogma, into chronic concerns of cultural conquest, economic imperialism and political absorption. Economics and logic have little to do with these arguments.

That is an element of the free trade issue which is purely Canadian. Americans did not see the Free Trade Agreement (FTA) as threatening their national identity or national survival. That is understandable given the nature of the trading relationship and disparities in size. But in Canada free trade did become the singular political issue of the day. An election was fought on it. But we were willing to take that risk because we knew the consequences of failure and the opportunities which would arise from success.

We knew the dangers of protectionist politics in the United States. We knew that if Canada was to compete globally it had to be able to compete continentally. Free trade with the U.S. was not a substitute for successful trade elsewhere. We knew that Canadian companies could not become competitive globally in a country of 26 million people, but that being competitive in a market of 275 million could be a key ingredient to global success.

The Free Trade Agreement is not perfect. But it is a good deal, one which covers the largest bilateral commercial relationship in the world, a relationship involving more than \$200 billion of trade in 1990. That agreement embraces an unprecedented range of transactions including trade in goods and services as well as investment. It provides for fair and definitive dispute settlement. It accomplishes more than has ever been done through multilateral negotiations to this day.

We believe we can begin to see signs of success -- success for both countries, each capitalizing on their own advantages and assets. The Free Trade Agreement is becoming the win-win accord it was intended to be.

But that new order in Canada-U.S. trade requires constant care, the constant exercise of political responsibility and political leadership. And that brings me to a recent disturbing development. This relates to the decision of the United States to invoke the Extraordinary Challenge provision of the FTA in a matter relating to a dispute over the export to the United States of Canadian pork. One of the Free Trade Agreement's key components is the provision for binational panels to rule on trade disputes arising. That provision was intended to ensure impartiality and the rapid settlement of disputes. By and large it has worked well.

The recent U.S. decision to invoke the Extraordinary Challenge provision followed a decision by a binational review panel which resulted in the revocation of the U.S. countervailing duty on Canadian pork imports and a refund in duties already paid. That was a considered decision by the binational panel of experts.

Canada disagrees with the U.S. decision to challenge this ruling by a binational FTA panel. This action seems to treat an Extraordinary Challenge Committee as an appellate court. That is not the purpose of those committees. The Extraordinary Challenge provision of the FTA allows for such a challenge only upon grounds of gross misconduct, serious violations of the fundamental rules of procedure, or manifest excess of jurisdiction. That is clearly not the case here. The U.S. resort to this provision is a response to protectionist pressures from Congress. The FTA, including the binational review panels, was designed to take political influences out of trade dispute decisions. This move attempts to put politics back in trade dispute decision-making and contravenes the intent of the FTA itself. We will make that argument to the Extraordinary Challenge Committee.

I have spoken of bilateral free trade and the challenge of leadership there. But there are other negotiations underway and beckoning. Here too, leadership is required.

I refer to the multilateral trade negotiations (MTN), the current round of the GATT. The stakes here are tremendous.

- Under current GATT rules, taxpayers from the 24 richest countries paid \$250 billion in 1989 to shelter farmers from competition;
- \$500 billion in annual trade in services is not covered by the GATT;
- US\$1.7 trillion annually in government procurement is not covered;
- If there were a one-third reduction in global trade barriers, the Canadian GNP would increase by about \$100 billion over 10 years, the U.S. GNP by over \$1 trillion.

The MTN negotiations have been re-engaged. But what continues to confound is the lack of leadership. The countries of Europe have yet to make the fundamental decisions required on agriculture if we are to succeed. Leadership must be forthcoming on those issues or the world trading system risks collapse into protectionist blocs. There seems to be a notion out there that as nations cut regional deals, they are immune from the damage protectionism can do. But erecting walls around blocs is no less dangerous than erecting walls around nations. The princes of protectionism must be convinced that if they win, they will all be paupers soon enough.

The way ahead will not be easy. But central to success is the extension by the American Congress of Fast Track Negotiating Authority for the MTN. Here too, leadership is required.

On this continent, trilateral free trade negotiations beckon. On February 5, Prime Minister Mulroney and Presidents Bush and Salinas announced their intention to pursue those negotiations. A market of 350 million people involving \$6 trillion of output is at stake. That market would be larger than any other, including the European Community.

In Canada, the Free Trade Agreement remains controversial. We are in the midst of a recession. Every job loss, every jolt of economic change is blamed on free trade. Opening another round of free trade talks is not politically attractive but it is vital for long-term economic growth.

*First*, North American countries which can compete with each other will be countries which can compete with the world. *Second*, our three countries possess complementary advantages and assets. *Third*, Canada seeks to sustain and expand the benefits of the Canada-U.S. FTA. We do not seek to re-open that agreement. A trilateral agreement will maintain and enhance Canada's attractiveness as a host for investment by offering access to all of North America. *Fourth*, the United States is the most important trading partner for both Canada and Mexico. Mexico is Canada's most important trading partner in Latin America. And Mexico, after Canada and Japan, is the United States' most important trading partner in the world. *Fifth*, Mexico is open for business as never before. The reforms initiated by President Salinas have been described by the President of the World Bank as "... one of the most ambitious, courageous and determined programs of economic reform and institutional change recently undertaken in any country." Mexico has become a market in fact, not in theory.

The logic of trilateral free trade is clear. But already the critics are gathering. Those who believe prosperity can be preserved behind walls are pouncing on the proposal. Those who fear competition, who believe prosperity is obtainable without being earned -- the same coalition of naysayers we faced in Canada when we began the free trade talks with the U.S. will now face the United States on this issue.

We need to answer decisively the arguments already emerging. One argument relates to Mexico's low labour rates. It is argued that this will syphon off jobs from our two countries, leaving them the winner and us the losers. Labour rates constitute only a small element of competitiveness. Far more important are a nation's infrastructure, managerial capabilities, product quality, productivity growth and R&D. If labour rates alone determined competitiveness, why do Canada, Japan and Germany rank among the top five trading nations in the world? And if countries buy only from low-wage economies, why do over 85 per

cent of Canada's imports come from the U.S., Europe and Japan -- which enjoy the world's highest wages?

In addition, I should point out that almost 80 per cent of Mexican imports already enter Canada duty free and the Canadian marketplace is hardly dominated by those products.

One final observation. The critics are in effect saying to the millions of Mexicans who yearn for better jobs that they should continue to live in poverty and not be provided the prosperity which only trade can bring. For these critics, Mexico is for vacations, but not vocations.

One thing the critics are not is economists. They believe jobs gained in one country implies jobs lost in another. That is neither the intent nor the effect of freer trade. The effect is more jobs for everyone, greater prosperity and productivity for all.

In 1988, the Canadian government was attacked for the FTA. Much of that had nothing to do with trade. Everything under the sun was said to be threatened -- our health care system, our environment, our pensions, our entire social safety net and our national identity. The FTA has had none of those consequences. The critics are now forced to focus on the economic effects of the FTA. And as the balance sheet comes in, those effects are showing up in the "plus" column for both countries.

Leadership won the day in 1988. It must win the day in 1991 -- maintaining full and fair implementation of the FTA, moving forward with the MTN and negotiating free trade with Mexico. Trade is the engine of the modern economy and the freer the trade the more powerful the engine. That principle is clear. History says it's true. Only leadership can make it fact.