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AN ADDRESS BY  
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TO THE PACIFIC BASIN ECONOMIC COUNCIL

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One of the enduring assumptions about the global trading system is that the industrialized West – especially the United States – is the driving force for trade liberalization, while the developing world – including Asia – is protectionist.

That this should be the case is not surprising. Historically support for freer trade has always been strongest among those countries with the greatest economic power. Great Britain's decision to repeal its Corn Laws coincided with the country's ascent to economic pre-eminence in the mid-19th century; the United States supplanted Great Britain as the global champion of free trade only after it had surpassed Great Britain in industrial strength; and Germany's commitment to free trade rose in direct proportion to its economic prowess.

Thus it was largely North America and Europe that took the lead in successive Rounds of the GATT [General Agreement on Tariffs and Trade], including the latest and far-reaching agreement in Marrakesh; and it is largely to North America and Europe that many now look to lead the next wave of liberalization under the World Trade Organization [WTO].

But will this always be the case? The world's economic centre of gravity is shifting rapidly eastward. Growth rates in much of Asia-Pacific are already two to three times the OECD [Organization for Economic Co-operation and Development] average. If current trends continue, the region will hold 60 per cent of the world's population, 50 per cent of global production, and 40 per cent of total consumption by the year 2000. This rapid growth is in turn shaping the structure of many Asian economies. Tariff barriers are falling, with or without formal trade agreements. Investment regimes are also opening, for the simple reason that these economies need huge inflows of foreign capital and technology if growth is to continue.

In short, Asia's rising economic strength is being matched by growing pressure both for domestic liberalization and for access to foreign markets. If history is any guide, the Asia-Pacific region may well emerge as the principal engine of trade and investment liberalization in the next century.

It is this fundamental economic reality – much more than our formal undertakings at APEC [Asia-Pacific Economic Co-operation forum] in Seattle or Bogor or Osaka – that underscores APEC's significance to the global trading system in the decades ahead. This is not to minimize the challenges that we face in the Asia-Pacific region in the immediate future. There is, for example, the failure of certain key advanced markets to liberalize as much as domestic conditions demand and as foreign exporters need. Opaque corporate linkages, restrictive distribution networks, a maze of regulations, distinctive cultural preferences – these and a myriad of other factors continue to make Japan, Korea, and others among the more protected industrialized economies.

Yet even in Japan sweeping economic changes are eroding protectionist walls. Over the last several years, Japan has been undergoing its own quiet restructuring – a restructuring that is being driven in part by broad social and demographic change, and in part by the pressures of global competition and the dramatic appreciation of the yen. The latter has greatly increased the relative costs of production in Japan and widened the price gap between Japanese products and imports. This in turn has led to a transfer of labour-intensive and lower-technology production out of Japan and a shift from export-led to demand-driven economic growth.

The pace of change may be unpredictable, but the direction is clear. Economic liberalization – principally through deregulation and the removal of import barriers – is stimulating domestic demand, creating opportunities for off-shore goods and services, and fuelling Japan's economic recovery.

Of even greater concern to the international trading community is our collective failure, so far, to negotiate China's accession to the new World Trade Organization. It goes without saying that China is *sui generis*. The size of China's economy has quadrupled since 1980, with annual growth now averaging 9 per cent. Already it is the world's 11th-largest trader. If current trends persist, China's economic purchase could equal that of the United States by 2020. Just as it was unthinkable 25 years ago that China would remain outside the United Nations, it is equally unthinkable that China should remain for long outside the new World Trade Organization.

So far the Chinese trade and investment system is not as open or as transparent as WTO membership requires. And the very weight of the Chinese economy makes it that much more imperative that we get the terms right for China's accession.

That is why Canada and fellow WTO members are prepared to work hard to see that the accession negotiations of China eventually succeed on terms satisfactory to all. Yet even in China the unmistakable trend is toward economic reform, market liberalization and greater openness. The question then is not whether China will join the multilateral trading system but, simply, when.

The central point is that the Asia-Pacific region is changing far more rapidly than most Western commentators recognize or are willing to credit. This momentum will, in turn, be reflected in the pace of development in APEC itself. The Uruguay Round of the GATT took four years to launch and seven years to conclude – even then many of the issues identified back in 1982 remain unresolved at the end of the Round. By way of contrast, APEC has agreed, in the space of three years, to reach free trade among its developed economies by 2010 and among its developing members by 2020 – that

is, if any of APEC's members is still a developing economy in 20 years' time.

Some have questioned whether these target dates are realistic given the great diversity of economies and interests involved. My own guess - and it is only a guess - is that we will reach free trade in many sectors long before the 2010 or 2020 deadlines once the built-in momentum of liberalization is truly unleashed.

With this in mind, Canada has been less concerned with the issue of when the process ends than with the much more important question of when - and in what ways - it should begin. For instance, we have worked over the past 12 months to develop work programs, deadlines and frameworks that will enable all of us in APEC to realize that vision.

Coming out of the Osaka meeting of APEC, we will have a detailed plan with commitments to action in the progressive elimination of tariffs and non-tariff measures, as well as work in the areas of customs procedures, standards and conformance, investment, government procurement and dispute mediation, among others.

The plan also details work programs agreed by APEC's various working groups in areas such as transport, telecommunications, human resource development, small and medium-sized enterprises, and industrial science and technology. A number of Canadian firms are already involved in working group activities and helping to ensure that APEC work is relevant to the objectives and to the needs of the private sector.

The APEC plan calls upon member economies to develop their own detailed schedules for trade liberalization and facilitation. These will be discussed, and compared, throughout 1996, for implementation at the beginning of 1997. We do not expect that members will provide in detail their liberalization plans from now through to the target date of 2010. We shall, however, argue for schedules of three to five years so that we have some predictability and a planning time frame for the private sector.

This APEC plan, like all plans, could be better - it could have more detailed commitments, tighter deadlines and, in some cases, more ambitious objectives. What is more, there are still some important questions about the nature of APEC itself that remain unanswered. Can we deepen the integration of APEC while broadening its membership? After all, the more ambitious our undertakings at Osaka, the greater the pressure on countries outside the area to fall in line. How will we square the need, at least initially, to keep APEC to manageable proportions, with our commitment to "open regionalism"?

This in turn raises a more fundamental question. Do we expect to liberalize across the board on an unconditional most-favoured-

nation basis – in which case it would be difficult to envisage how we could accept the goal of free trade in the region without assurances that the rest of the world was also moving to free trade as well?

Or are we aiming for a more conventional free trade area along the lines of, say, the NAFTA [North American Free Trade Agreement]? Perhaps the solution, as the APEC Eminent Person's Groups has hinted, is to do both – that is, to reach free trade in the region by 2020 and then to offer access to the rest of the world on a reciprocal basis.

Either way, what we should be trying to fashion in Osaka and beyond is not merely an instrument for liberalizing markets in Asia-Pacific – that is too modest an endeavour – but a juggernaut to force the pace of liberalization worldwide. Canada is well placed to take a role in such a project. Our exports increased by 19 per cent in the region as a whole last year. APEC economies now consume one half of Canada's total overseas exports. Our two-way trade with the economies of Asia-Pacific has increased by 38 per cent, or \$14 billion, since APEC's inception in 1989. Direct investment in Canada from Asia increased fourfold in the decade to 1994.

Asia represents four of our top five sources of entrepreneurial immigrants. The share of Asia-Pacific visitors has doubled in the decade to 1993 to one third of the total. The number of Asians studying in Canada and Canadians studying Asian languages has increased significantly. We have already taken a lead in advancing free trade across the Atlantic. We are equally well disposed to be Pacific free traders as well.

Thank you.