



# Statements and Speeches

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## THE FUTURE OF INTERNATIONAL TRADE

Address by The Honourable Ed Lumley, Minister of State (International Trade), to the Fifth Quadrangular Conference, Georgetown University, Washington, D.C., September 20, 1982

...Trade and trade problems today are a hot topic. Almost daily the media headline the latest trade dispute. The General Agreement on Tariffs and Trade (GATT) Secretariat, in their recently released annual report, underlined emphatically the consequences of a drift into an increasingly protectionist world. At the International Monetary Fund World Bank annual meetings held in Toronto two weeks ago, some delegates expressed concerns that the whole international system of trade and finance could disintegrate. And just last week Sir Roy Denman (head of the EC delegation in the USA) warned of the danger of a collapse of the world trading system if current disputes were not resolved amicably.

Such statements obviously beg several important questions. What grounds are there for these expressions of concern? We all know that the postwar economy has developed through increasing interdependence among nations and by the expansion of trade based on free trade principles. Few today dispute the notion that if nations turn protectionist in the pursuit of short term objectives, their longer term development will suffer.

And yet, as we are all too aware, the world trading system today is currently being buffeted by strong pressures and strains on many fronts. It is not only timely but imperative that we ask ourselves why, what are the implications and where do some answers lie.

In reflecting on these questions in preparation for this conference, I was reminded of two remarks which taken together capture very well, to my mind, the conundrum facing trade policy officials today. The first was a remark made by the director general of the GATT, Arthur Dunkel when he compared the trading system to riding a bicycle. "If you don't keep moving forward, you fall over." The other quotation was by the very highly regarded United States Secretary of State George Shultz when he wrote: "Nothing is more domestic than international trade policy." As I said, within these two statements we have today's conundrum.

Our collective economic wellbeing is closely tied to a strong and liberal trading system. To ensure that the system remains strong and credible, we must act on opportunities to strengthen what has been achieved and to build on it.

International-  
domestic link

However, current economic circumstances weigh so heavily that trade policy officials are severely constrained by domestic preoccupations. The key domestic political concern today is jobs. International trade policy has a lot to do with the location of employment and therefore is inextricably linked to domestic realities.

Difficult as their task is, I sometimes look very enviously at our Treasury colleagues. Their policy judgments have profound and significant consequences for the rest of us but their debates are often obscured by discussions on the money supply, velocity rates, liquidity traps and J curves. Very few people out there in the real world understand what they are talking about. Unfortunately trade policy officials do not have that luxury.

Trade problems are much more immediate and understandable. Trade policy officials and politicians will therefore continue to be required to work within the context of today's domestic realities. In order to do so, we must improve our understanding of why the system is under attack.

I am not one of those who believe that we are about to witness an imminent collapse of the system or a massive retreat into the inward-looking policies of the 1930s. We are, I think, wise enough to avoid that. That threat I see is much more insidious – a steady erosion of the trading system – a gradual chipping away at the principles on which the system has been so painstakingly built.

What are the arguments? The first one is that imports are seen to cost jobs in the short run. At a time of record high unemployment, the temptation is strong to look at highly visible imports and fear that they are taking jobs. But what is not so visible is the gain in efficiency achieved through trade and the large element of employment in our societies dependent upon exports for survival.

These sectors often represent the most dynamic elements of our economies and restrictive measures which will only beget further restrictive measures by others can only put these in jeopardy. Trade is not a zero-sum game with winners and losers. With trade, we are all winners.

Another argument that one hears increasingly from sophisticated circles who should know better is the refrain that nobody else plays by the rules, so why should we? Those who take this approach argue that the trading system is breaking down and that there is no choice available to those determined to protect their own economic security than to fight fire with fire by joining with those who are disregarding the rules. This argument is destructive of all that we have created in the postwar era.

**Responsibility  
factor**

We all know that none of us is perfect.... But as the major trading countries, we share a leadership responsibility in ensuring that the trading system as a whole is seen to be working fairly.

Competitive foreign suppliers must have full and fair opportunity to serve all our markets, consistent with international rules which allow for action to prevent domestic injury. Failure to provide fair access will only lead to greater skepticism and even cynicism. This in turn would strengthen the hands of the proponents of protectionism and narrow reciprocity.

Let us make no mistake of what is at risk. A turning away towards more protectionist policies and actions by the major trading blocs could, as we learned in the 1930s, have a catastrophic effect on the global trading system and on the economic wellbeing of all of us.

There is another more sophisticated argument which does not seek to deny the economic benefits of freer trade. It is that the level of economic integration which we have achieved imposes upon us an unacceptable degree of international intervention in our domestic societies. In other words, it limits to too great a degree the scope for domestic action.

Those who favour this argument seek to turn the clock back to a simpler era. As attractive as it may be to some, turning the clock back is impossible. We have gone too far — and rightly so.

**Economic  
health, political  
security  
inseparable**

We are living in a closely knit world where we must all cope together, for our economic wellbeing as well as our political security are inseparable. Unilateral attempts to redefine the rules or the principles of the trading system cannot succeed and can do much harm.

The lesson to be drawn from this is that real understanding and mutual support between trade partners will be crucial as our economies continue to pass through this difficult time. Certain restrictive measures have been necessary in all our countries and may well be unavoidable in the future.

In facing up to these problems, it is imperative that major trading countries demonstrate the sensitivity and will necessary to produce mutually satisfactory solutions. If we do not work together to alleviate these pressures, the consequences could be disastrous.

We must all bear in mind that trade relations are not only a matter of applying rules mechanically and blindly. They are a matter of policy — of judgment and sensitivity to imponderables. We must take account of each other's difficulties and not just our own.

We must also be aware of our responsibilities to the world. We must elevate the debate above dangerous mutual recriminations, misunderstandings and resentments. The overriding nature of our common interests must lead us to sharing responsibility for solving the major issues facing us.

This must be our first priority.

But resistance to the pressures of protectionism is not sufficient to do the trick alone. As I said earlier, we must move forward. A significant milestone will be reached in November when the GATT will meet at ministerial level. That meeting two months from now presents all of us with a major challenge. It will be important for that meeting to begin to come to grips with a number of problems where agreement has so far eluded us as well as beginning to address the question of how to ensure that the framework of the GATT meeting priorities remains viable throughout the 1980s.

**GATT meeting  
priorities**

It might be helpful if I share with you the priorities which Canada will carry into that meeting:

*Safeguards agreement* — We want to see a system which requires everyone to follow the same rules and which would ensure that exports are not acted against frivolously or unnecessarily. At the same time it clearly must allow emergency actions when these are fully justifiable.

*The Dispute Settlement System* — This system is critical to the effective enforcement of GATT rights and obligations. We must renew our commitment to make it work effectively as it can only be as good as our political commitment to it.

*The emergence of the advanced developing countries* — A key priority in the 1980s is to ensure that these countries make a contribution to the international trading framework commensurate with their stake in the system, and also to ensure that their legitimate interests are met.

*Agriculture* — We should be seeking improved and more balanced rules governing trade in agricultural products. In particular we must seek better discipline over the use of export subsidies. At a time of world food shortages and large government budget deficits, I fail to see how anyone could disagree with the need to strengthen the international framework and co-operation in this area.

*Fish* — Barriers to trade in fisheries products have not been adequately addressed in the past. Like agriculture we attach a major importance to work in this area.

*Strengthening existing GATT codes* — The Aircraft Agreement and the Government Procurement Agreement negotiated during the Tokyo Round were innovative and significant in trade terms. We must explore the possibilities for further action in these areas.

*Tariff escalation* — We continue to look to action to provide better access generally for further processed resource products. The tariff structure of a number of countries continues to operate against resource exporters by limiting their possibilities for

increasing their value-added — even though they enjoy a comparative advantage.

These then are priorities for Canada as we approach the GATT ministerial. Of course other issues have been suggested and each country has its own priorities. Those that come to mind include trade in services, trade-related investment issues and high technology.

We will go along with the suggestion that the problems related to trade in services be studied in the GATT recognizing that this is a complex area and that this will be a long process. Similarly with respect to trade in high technology goods, we are prepared to consider whether and how this problem might be addressed in the context of GATT.

**Trade-related  
investment**

With respect to proposals regarding trade-related investment matters, we have said that such a program of study as suggested would be unbalanced unless it were to address at the same time the behaviour of the multinational enterprises.

This of course does not constitute an exhaustive list of all those issues which will be before ministers at the GATT ministerial. But it does constitute a list of the most important issues facing the trading system. It will be important in November in Geneva that we begin to grapple with these.

Canada, as chairman of the GATT ministerial, has high but realistic expectations of what the Geneva meeting can achieve. I do admit however to some concern about the differences in expectations I have heard expressed by various national representatives. No country can expect to have it all its own way. We will need to construct a final package that we all can support. This will require flexibility and compromise from all participants.

The problems we face are complex and we cannot expect to walk away with all the solutions. But we can agree on a work program — a trade agenda for the 1980s — so that issues of concern and areas of particular interest can be addressed in ways to strengthen and make more relevant the system as a whole.

Political rhetoric will not suffice. A bland communique will I believe represent a failure. We must be able to demonstrate to our respective publics that real progress can be made on the important problems confronting the world community.

As Machiavelli once said: "There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things." This is the challenge facing trade policy politicians and officials today. As perilous and difficult as this exercise may be, we cannot afford to fail.

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