



STATEMENT

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**NOTES FOR AN ADDRESS BY
THE HONOURABLE ROY MACLAREN,
MINISTER FOR INTERNATIONAL TRADE,
AT THE CANADIAN LUNCHEON**

**DAVOS, Switzerland
January 29, 1994**

I join Ambassador Roy¹ in welcoming you to the 8th annual Canadian luncheon in Davos. I also want to take a moment to recognize our co-hosts for this luncheon: the governments of British Columbia, Manitoba, Ontario and Quebec, and the executives of many Canadian corporations who are hosting individual tables. We appreciate their co-operation.

The Canadian luncheon has become a tradition and I am pleased to be part of its continuity. There is, however, one element of the tradition with which I am about to break. This year the speech will be short -- a very brief overview of developments in the world trading environment and the priorities of the Government of Canada.

If there is a consensus to arise out of recent Davos conferences, it is that we are living in an increasingly interdependent global economy. A virtual revolution in transport, telecommunications and computational technologies is rapidly blurring the distinction between domestic and international economies. Canada's ability to continue to attract the high-skill, high value-added industries and jobs of the future will depend directly on how we position ourselves in this emerging global economy. Or stated alternatively, any domestic growth strategy must, almost by definition, be an export-oriented strategy.

Yet the same process of global integration that is making trade and economic linkages so critical to Canada's future is also making the environment in which we must pursue these objectives increasingly complex. In the past, Canada had the good fortune to be allied to the world's major economic powers -- first Britain, then the United States --, which gave us a degree of international leverage and market access that our limited size would not otherwise have justified. Today, however, there is not one but three economic superpowers; meanwhile, we are witnessing a profound shift in the fulcrum of economic power from the Atlantic to the Pacific. How we construct the institutions and mechanisms to cope with this shift -- and how we avoid potential frictions -- is perhaps the central issue confronting the world community; one which is of particular concern to a trade-dependent nation such as Canada. Although the management of our critical relationship with the U.S. is of paramount concern, so too is the danger of being squeezed between rival trading blocs.

At the same time, the rules of the international game are changing dramatically. Increasingly, it is more accurate to speak not of trade policy as such, but of international economic policy. Jurisdictions and policy areas that have long been considered to be quintessentially domestic are now increasingly subject to international negotiation and rule-making. Both government and the private sector must now deal not just with

¹ Jacques S. Roy, Canada's Ambassador to Switzerland.

tariffs and export subsidy practices, but also with investment policy, intellectual property, competition policy, and research and development. Even social programs, previously the sole preserve of national governments, are coming under the trade negotiator's microscope or, at the very least, are being reshaped in response to the inexorable pressures of the international marketplace. Just as Canada cannot afford to hide from these increasingly intrusive trade and economic policies, nor can we afford to expose ourselves to the unilateral rule-making of others.

This brings me to the central challenge of Canadian trade and economic policy in the late twentieth century: how to pursue our national interests in a world where economies are not only increasingly integrated but international institutions are struggling to keep up. The answer, I would suggest, lies largely in developing a more independent, more agile and more focused trade agenda based on a strategic assessment of where our economic interests lie.

Although it is beyond the scope of this speech to explain such a policy in detail, let me set forth what I believe should be our three strategic objectives. First, we must begin to target our global economic priorities more clearly. Europe remains a central market for many Canadian exports and an important source of investment capital. We will continue to attend to the transatlantic market carefully. For its part, the U.S. market and the successful management of our trade relations with our neighbour are fundamental to Canada's economic prosperity. Nonetheless, the highest growth rates and most exciting new market opportunities are in the Western Hemisphere, in Latin America, and most especially westward in the Pacific Rim.

How can we secure further access to traditional markets while actively expanding Canada's economic linkages with high-growth markets overseas? For one thing, we intend to promote a quick start to the work of the new World Trade Organization. The WTO is a Canadian proposal that completes the postwar trade and payments system in the best traditions of Canadian foreign policy. We will actively encourage the international community to elaborate more fully a forward-looking work program that reflects Canadian interests as well as the new issues -- especially trade and the environment, and the possibility of replacing anti-dumping regimes with competition policy -- that have arisen through greater global integration. We will also actively encourage means by which the WTO, the World Bank, and the International Monetary Fund can co-ordinate their efforts to reach mutually reinforcing policy objectives. And we will actively encourage the prompt and meaningful accession of China, Taiwan and Russia to the new General Agreement on Tariffs and Trade/WTO structure of rights and obligations.

The recently proclaimed North American Free Trade Agreement [NAFTA] can also provide a complementary tool for expanding opportunities for Canadian exports, but only if it remains fundamentally open to new partners -- partners who are prepared to live by the NAFTA disciplines; who will take a constructive approach to international rule-making; and who can provide further balance in a trading arrangement where the United States remains predominant.

What we do not want to see is a NAFTA that turns inward on itself, devolving into a form of continentalist, protectionist bloc. For this reason, I believe we must focus our attention on the accession issue and underscore its importance as a means of strengthening trade and investment relations, not only within our hemisphere but across the Pacific for those Asian countries ready for a comprehensive economic partnership.

But the WTO and NAFTA are not the only tools available to Canada to expand our trade relations beyond North America. Another approach could be to explore the prospects for negotiating bilateral free-trade arrangements with selected Pacific Rim countries. In this respect, Canada's role in the FTA [Canada-U.S. Free Trade Agreement] and now NAFTA can be translated into a major competitive advantage on an international scale by encouraging greater economies of scale, greater specialization and greater productive efficiency. To do this, however, it is essential that we view our North American base not as a buffer against international competition, but as a springboard into a rapidly expanding global economy.

The second part of this more strategic approach to trade policy is to devise ways to target government programs and resources more effectively, to assist Canadian companies to be even more successful international players. Of particular concern to this government is the role of small and medium-sized enterprises, which have the potential to be the growth engines of the future but often lack the critical mass, the financial resources, or the technical expertise to penetrate foreign markets. In co-operation with the Minister of Industry, I have instituted a full review of this matter with the aim of ensuring that our small and medium-sized firms have access to the tools and the environment needed to compete. Export and venture financing, delivery of market information, co-ordination of government programs and the pooling of private-sector resources -- all of these issues are now on the table. By adopting a more market-driven approach to trade development -- one that sees government as an export facilitator rather than an export leader -- we can use market signals to help set our real trade priorities.

Finally, we must foster a domestic economic environment conducive to export-led growth. It has become commonplace to observe that the boundary between national and international issues is

becoming blurred. In the same way, the distinction between domestic policy instruments and trade policy instruments is in many instances meaningless. Regulatory and tax policies that unnecessarily inhibit export sectors must be revisited; regimes and restrictions that block constructive international investment must also be re-examined. As the world economy becomes increasingly open, Canada will inevitably be exposed to greater and more fluid investment flows. We need to ensure that Canada can attract the kind of high-quality foreign investment that will allow us to take advantage of technology transfers, to acquire materials and skills from global markets, and to remain at the hub of international linkages and alliances.

Yet the real key to encouraging productive investment lies in reducing government deficits. Only through greater fiscal responsibility can we ease the pressure on interest rates and exchange rates, eliminate the need for further tax increases, and help to restore business and investor confidence. This in turn can prepare the ground for a less restrictive monetary policy, one that will make more accessible the capital needed for investment and help put unemployed Canadians back to work. If we are going to promote export growth and high-wage jobs, then we need a domestic economic policy that spends less on the present or the past -- funnelling scarce resources into current consumption or past debts -- and more on investing in our future.

An aggressive, outward-looking trade agenda is critical to economic recovery and job creation. While Canada's international objectives remain unchanged -- opening up high-growth markets, encouraging internationally competitive industries and enhancing rules-based trading regimes -- our tools and approaches will need to be new, to reflect the realities of the new global economy.