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CATCHING UP

TRADE POLICY AND RESEARCH CHALLENGES FOR THE 1990s

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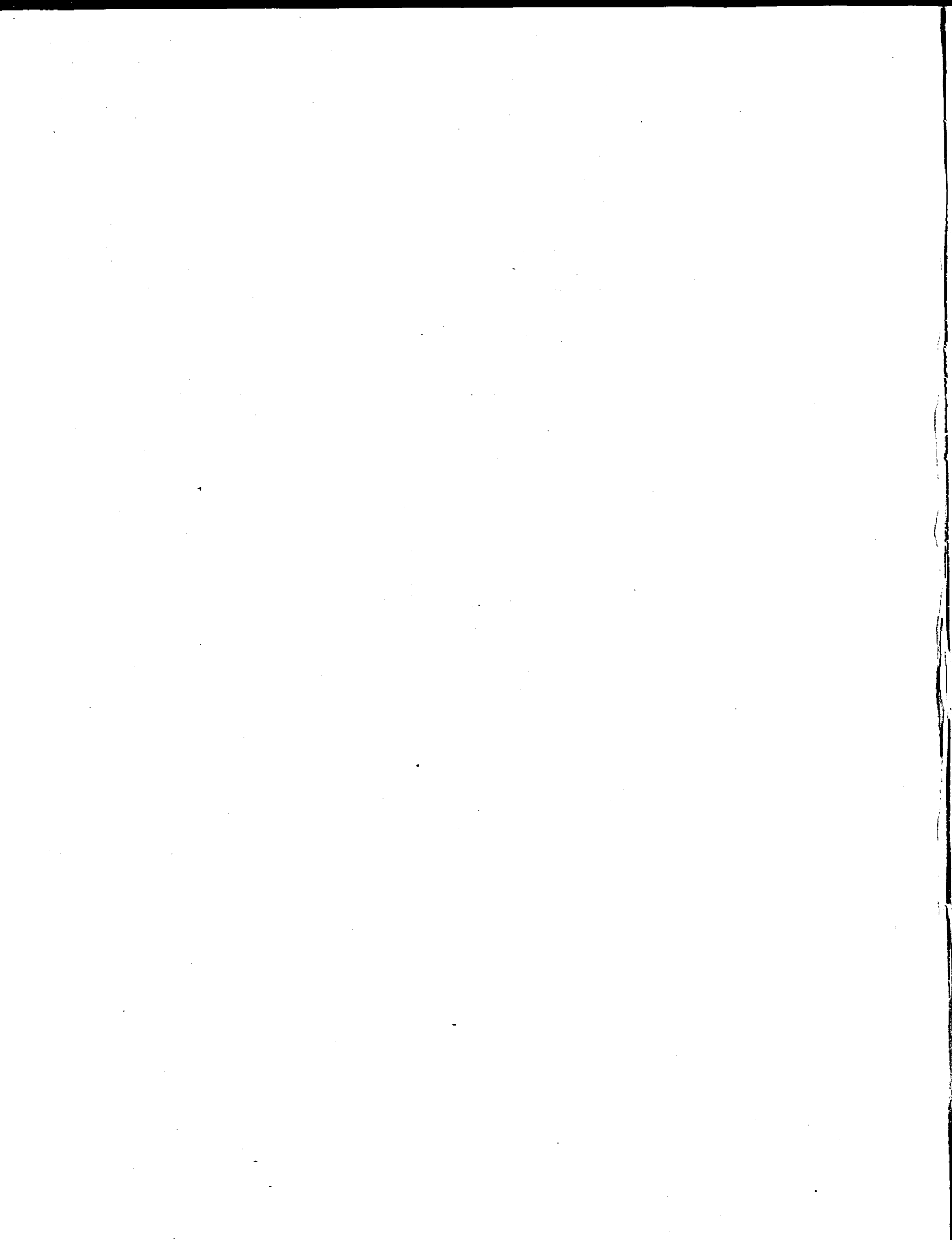
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Catching Up Trade Policy and Research Challenges for the 1990s

Michael Hart

The last decade has seen exciting developments and changes in Canadian trade policy. The next decade may see even larger shifts as Canada adjusts to the twin forces of globalization and regionalization and defines the role it will play in the emerging global economy. Meeting these challenges will require not only adjustment in government policies and business practices in Canada, but also a concerted program of research and analysis to underpin and explain these adjustments. This paper briefly considers some of the trade policy themes that could be explored in helping Canadians define their place in the rapidly changing global economy.

Retrospective

During the second half of the 1980s, Canada broke with two long-standing traditions in its trade policy and practice. The negotiation of first a free-trade agreement with the United States (FTA) and then participation in the negotiation of a North American free-trade agreement (NAFTA) ended Canada's psychic attachment to multilateralism as the only legitimate way to negotiate international trade agreements. As a practical matter, of course, Canada had always been prepared to deal bilaterally with the United States if the benefits were large enough, such as the 1965 Autopact. Nevertheless, the perception had developed that Canada had a special vocation for multilateral trade negotiations, a perception that the FTA brought to an end.

Even more fundamentally, however, the FTA marked a clear rejection of the mercantilism of the past. For good or for ill, Canada's attachment to multilateralism had also included a firm acceptance of the benefits of the mercantilist bargaining that formed an integral part of the negotiating practice under the General Agreement on Tariffs and Trade (GATT). Indeed, Canada had proven one of the more adept practitioners of this art, routinely seeking access to foreign markets while trying to continue shielding its own.¹ This approach was also rejected in the negotiation of the FTA. As such, the FTA formed part of a group of policies aimed at making the Canadian economy -

¹ For a discussion of the nature of GATT mercantilist bargaining and Canada's approach to it, see Michael Hart, *A North American Free Trade Agreement: The Strategic Implications for Canada* (Ottawa: Centre for Trade Policy and Law, 1990).

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particularly the manufacturing sector – more competitive, less shielded from outside competition and better integrated into the global economy.

This reshaping of Canadian trade policy formed part and parcel of a broader re-orientation of Canadian economic policy towards greater reliance on market discipline and less reliance on government direction of Canadian economic life. While perhaps not always observed in the details of implementation, the philosophical orientation of the federal government since 1984 has been to reduce the role of government in the economy.² Decisions about what to produce, where to produce it and at what price to sell it are considered the prerogative of the private sector, with government's role limited to providing a supportive environment through appropriate framework and facilitation policies. The FTA was thus firmly grounded in domestic economic objectives. It sought to encourage Canadian industry to adjust and become more competitive by exposing it to greater competition from US producers. The reward for making these adjustments would be greater and more secure access to the much larger US market.

The re-direction of Canadian trade policy also reflected a pragmatic assessment of the capacity of multilateral trade negotiations to respond in a timely and thorough manner to Canadian domestic economic requirements. While Canada did not reject the multilateral approach – and indeed has been one of the more active participants in the Uruguay Round of GATT negotiations – it did determine that multilateral negotiations were no longer a sufficient means to achieve Canadian trade objectives. Canada thus adopted a two-track approach to trade negotiations in 1985, simultaneously pursuing its objectives in a bilateral agreement with the United States and in a multilateral agreement under the auspices of the GATT. In 1990, by agreeing to participate in the NAFTA negotiations, Canada not only confirmed its 1985 decision, but adjusted its two-track approach to a multi-tiered approach.

In all three sets of negotiations, Canada also indicated a willingness to expand the scope and content of trade negotiations. Not only did these negotiations cover the traditional subject matter of trade negotiations – trade in goods and measures directly affecting that trade either at the border or in the domestic market – but also trade in services, investment, intellectual property and similar trade-related issues. The Canada-US FTA includes chapters on investment, business travel and trade in services; Uruguay Round discussions include intellectual property as well as services and

² For a brief discussion of the re-orientation of Canadian economic policy see Michael Hart, "Canada Discovers Its Vocation as a Nation of the Americas," in Fen Osler Hampson and Christopher J. Maule, eds., *After the Cold War: Canada Among Nations 1990-91* (Ottawa: Carleton University Press, 1991).

investment; and discussions parallel to the NAFTA involve labour market conditions, environmental regulation and adjustment issues.³

The last few years have thus seen a revolution in Canadian thinking about both the form and substance of trade negotiations. This revolution has not been without controversy as trade policy came out of the closet of specialist consideration and into the spotlight of public debate. Much of the adjustment burden faced by the Canadian economy, particularly in the manufacturing sector, for example, has been laid at the doorstep of this re-orientation of trade policy. Public support for further changes in Canada's approach to trade policy is thus somewhat fragile and adds to the need for greater public education and understanding of what is happening and why. There is a large and important role here for independent analysts capable of providing sober and convincing considerations of recent developments in Canadian trade policy and practice. More than anything else, there is a need for independent scholars to refute the ideological and ill-informed diatribes that pass for commentary on public policy in the Canadian media.⁴

Prospective

As important as explaining the road we have recently travelled is the need for independent trade policy research and analysis to explore the even more significant shifts we are likely to face in the decade to come. Revolutionary changes in the way the world economy is now organized have only begun to be reflected in domestic policy developments and in international economic negotiation and regulation. While the federal government negotiated the FTA and participated in the Uruguay Round, the conduct of international business changed to the point where many of the rules and agreements in force domestically and internationally speak but faintly to the way in which international economic exchanges are organized and pursued.

Forty-five years ago, when the basic framework of international trade and economic rules was negotiated, trade in goods was the main vehicle of economic integration. In 1950, for example, the total volume of world trade represented about ten percent of world production. The bulk of this trade con-

³ For a discussion of some of the implications of the changing focus of trade negotiations, see Michael Hart, "The Mercantilist's Lament: National Treatment and Modern Trade Negotiations," *Journal of World Trade Law*, vol. 21, no. 6 (December, 1987), pp. 37-61.

⁴ I have in mind here, for example, the high profile provided by the Canadian media to such books as Mel Hurtig, *The Betrayal of Canada* (Toronto: Stoddart, 1991), Maud Barlow and Bruce Campbell, *The Selling of Canada* (Toronto, 1991) and Linda McQuaig, *The Quick and the Dead: Brian Mulroney, Big Business and the Seduction of Canada* (Toronto: Viking, 1991). Few Canadian scholars consider these books to be sufficiently serious to rate commentary. While they may be right, by eschewing comment, they have left the field of public discussion wide open to this kind of nonsense.

sisted of raw materials (62 percent); most of the rest was made up of finished products; very little trade involved parts and components. Most trade involved transactions between unrelated private parties organized as nationally identifiable companies. The main barriers to trade were government measures imposed at the border (tariffs and quotas) or differential treatment in taxation and regulatory requirements (e.g., commodity taxes and mixing requirements). Relatively high tariffs helped to maintain nationally segmented markets for manufactured products. Exchange rates were fixed and maintaining a positive current account position was an important goal of government economic policy.

In the 1950s, most international economic activity was undertaken by large, nationally organized firms. Companies designed, engineered, manufactured, marketed and serviced a range of related products totally within the confines of the firm. They might go outside the firm for financing and advertising but little else. Individual firms were hierarchically organized and many employees stayed with a firm for their full working lives. Employees felt themselves to be part of their company and companies felt themselves to be part of a national economy. Most companies – and their products – had a clearly identifiable national origin and foreign investment generally involved the establishment of miniature replicas of such companies, with only a few aspects centralized in the home office. Foreign direct investment, however, represented only a small proportion of global economic activity.

Government policy – domestic and international – reflected these facts of economic life. The GATT, for example, negotiated in 1947-48, reflected the experience and problems of the 1930s and 1940s, particularly US experience and perceptions of the problems.⁵ It assumes trade among national economies pursued by private entrepreneurs working largely within the confines of national borders. The GATT regards conflicts that may arise between firms in one country and firms in another as involving national interests that can be resolved through intergovernmental consultation. As negotiated in 1947, it

⁵ The General Agreement on Tariffs and Trade (GATT) was adopted as an interim agreement to cover the tariff concessions negotiated among 23 countries in Geneva concurrent to the ongoing negotiation of the Charter for an International Trade Organization. It is made up largely of the commercial policy chapter of the draft charter (chapter IV) and a few other articles required to give the agreement its necessary shape and form. The failure of the US Senate to ratify the Charter adopted the following year at Havana resulted in the temporary GATT functioning ever since as a substitute for the more ambitious International Trade Organization. The GATT was built out of lumber that was ready to hand in the late 1940s. It made extensive use of the language of US trade legislation, including that of the Smoot-Hawley Tariff Act of 1930, as well as the bilateral agreements negotiated under the US Reciprocal Trade Agreements Program launched in 1934. It reflected the experience and preoccupations of that era, *The United States and the Restoration of World Trade* (Washington: Brookings Institution, 1950).

conceded the regulation of domestic economic life – competition policy, for example, or farm income stability – to be strictly within the purview of national governments as long as this regulation did not involve overt discrimination between domestic and foreign products except as provided by the GATT-sanctioned border regime.

Few of these assumptions remain valid today, but policy has not kept pace with these changes. Trade in goods, while it has grown at an astounding rate over the past forty years (twice as fast as production and now constituting about twenty percent of world production) is now less important than international investment and capital flows and exchanges of knowledge and technology as instruments of international economic integration. The value of world trade in goods – in real terms about five times larger than its value in 1950 – is now but a small fraction of the annual value of capital movements. Fully a fifth of the value of world trade now consists of services, and a further proportion involves services imbedded in goods. Most major currencies now float freely and their values are adjusted constantly and instantaneously. The IMF has been transformed from an instrument for regulating currency values and balances of payment to that of banker and economic advisor to the third world. Regional trade agreements have become major forums for reducing trade barriers, negotiating rules and settling disputes. GATT is in danger of becoming a residual negotiating forum, providing the systemic glue that holds various regional arrangements together and consolidating the experience and experiments of regional negotiations.⁶

⁶ Sylvia Ostry in *Governments and Corporations in a Shrinking World* (New York: Council on Foreign Relations, 1990) has argued that the trade, financial and technological links that now draw national economies together have dramatically changed the policy context for transnational corporations, governments and international institutions. John Dunning in his work on international investment and the role of the state argues for greater convergence of micro-economic policies within the nation-state to complement the increasing convergence of macro-economic policies among nations. See "Governments and Multinational Enterprises: From Confrontation to Co-operation?" *Millennium*, vol. 20, no 2 (Summer, 1991), pp. 225-244. Robert Reich, Michael Porter and Kenichi Ohmae, the gurus of globalization, have each added their own, sometimes conflicting, insights to this phenomenon. In *The Work of Nations* (New York: Alfred A. Knopf, 1991), Reich makes a persuasive case that the assumptions which underpin much of our thinking about the organization and conduct of the international economy is seriously outdated, making much of the analysis backing up policy discussion and international negotiation suspect. Some of the analysis that follows has been much influenced by his work. In *The Competitive Advantage of Nations* (New York: The Free Press, 1990), Porter argues the importance of attaining the necessary critical mass at the national level for strategic industries if countries are to prosper in the highly competitive circumstances of the 1990s. In *The Borderless World: Power and Strategy in the Interlinked World Economy* (New York: Harper Business, 1990), Ohmae contends that neither products nor corporations have a nationality. Government insistence that they do, through various national and international laws, institutions and policies, will only frustrate the development of competitive industries.

The last decade has seen the emergence of global corporations and global networks involving local and regional firms. These new forms of industrial organization rely on a much more fragmented and decentralized approach to design, engineering, production, marketing and service. They are organized much more horizontally than their counterparts from an earlier era and they make much greater use of expertise and resources outside the firm. Global firms use strategic alliances such as joint production, R & D and other ventures, licensing arrangements, contracting out and brokering among global corporations and networks as basic techniques in organizing their activities. As a result, there has been a tremendous growth in intra-corporate and intra-sectoral trade and in parts and components as well as an increasing reliance on activities taking place far from corporate headquarters or ultimate markets. New forms of specialization have resulted in the development of strategic links between global corporations and local suppliers and distributors on a global basis. The stability in corporate organizations and relationships that was an integral part of economic life in the 1950s and 1960s has been replaced by a new premium on fluidity and flexibility. Employees no longer experience the same symbiotic relationship with the firm and firms no longer feel any special attachment to political entities. With the reduction and even elimination of traditional border-based barriers to trade, political frontiers now bear little relationship to economic frontiers.

To private sector decision-makers, the issues of government policy that are critical are less those of trade policy than those that provide the overall economic climate. Governments are increasingly aware of this and thus the focus of policy has shifted from efforts to segment markets (i.e., protect existing investment) to efforts to promote interdependence (i.e., attract new investment by both domestic and foreign investors). As a result, we have seen concurrent policy rivalry and policy convergence along a broad range of government instruments from fiscal and monetary policy (convergence on a world-wide basis as government after government adopts the IMF prescription for macro-economic policy) to subsidies and sectorally-based regulatory schemes (rivalry as governments compete for investment). This shift in basic orientation, however, is incomplete. Much of the underlying thinking is still based on the assumption that much of economic life can be understood on the basis of national corporations operating within national economies controlled by national governments.⁷

The current downturn in the business cycle provides a good example of residual thinking. Much public discussion – in Canada and elsewhere – assumes that this recession is a national phenomenon resulting from the fail-

⁷ For an analysis of some of these phenomena from a Canadian perspective, see Richard Lipsey, "The Case for Trilateralism," in Steven Globerman, ed., *Continental Accord: North American Economic Integration* (Vancouver: Fraser Institute, 1991).

ure of country-specific economic policies and amenable to country-specific policy responses. In fact, it is a global phenomenon with only its depth and length subject to local variation, only partially as a result of local policies. Much of the confusion about the causes and effects of this recession are grounded in the failure to recognize that Canada – as well as its major trading partners – is experiencing a triple dose of interrelated economic adjustment: adjustment flowing from a slowdown in the business cycle; adjustment flowing from the globalization of production and markets; and adjustment flowing from revolutionary changes in industrial organization. These adjustments are exacting heavy social and economic costs in part because the interrelationships between the various factors are not well understood and appropriate policy responses are not readily available.⁸

Part of this adjustment is flowing from the decline in the importance of manufacturing. The revolution in knowledge-based activities has devalued the role of hardware, i.e., the products of traditional manufacturing and the value of those producing traditional manufactured products, and increased the value of knowledge-based products. The CD player is not a major investment; it can now be purchased for little more than a hundred dollars. Discs on average cost twenty dollars retail, of which less than a dollar is required to produce the actual disc. The real cost is in the software, i.e., the music. In effect, over the life of the player, the average user will invest at least five or ten times its value in software. Sony's decision to purchase CBS Records, therefore, was a shrewd recognition of where future profits lie. Software is similarly driving developments in the computer industry. Computer hardware prices have declined radically over the past few years in order to increase the market for software and in turn, increase computer literacy and consequent interest in hardware. In this vein, the Apple-IBM strategic alliance is in part a reaction to the dominance of Microsoft in the design of software and an effort to replace Microsoft software products with their own.

A limited response of governments to the changing face of global economic life can be seen in the changing focus of trade negotiations. It is now recognized that today's barriers to international economic exchanges are no longer tariffs, QRs and other traditional measures but domestic policy instruments such as government procurement and competition and innovation policy. But here too, the transition is incomplete and continues to be hobbled by residual thinking. There is resistance to negotiating international rules that penetrate deep into national economic life and much of the approach of governments to these negotiations reflects continued attachment to

⁸ Robert Reich, *The Work Of Nations* (New York, 1991) is one of the first studies that synthesizes available analysis of many of the interrelated factors involved. The result is an integrated picture of the social and economic stresses being experienced in late twentieth century industrial society. It makes for compelling and sobering reading.

the way the worlds of commerce and political life were organized twenty years ago. US determination not to alter its trade remedy laws, Canada's desire to protect its supply management system, EC reluctance to consider CAP reform and Japanese attachment to unique product and process standards are in effect a continued insistence that borders matter and that national economic life needs to be shielded from the further inroads of the global economy.

Government resistance to changing the content of international economic negotiations has been magnified by weaknesses in the international institutional framework. Based on the assumptions and practices of an earlier era, it is not well positioned to tackle the pressing issues of today. More by accident than by design, the global institutional framework has evolved into a multi-tier system of global and regional rules and institutions, but the linkages between the tiers remain ill-defined. As a result, an uneasy relationship has developed between global institutions and regional ones. It is not clear how the various tiers function and relate to one another. Is it a relationship of dependence or of interdependence? As a practical matter, regional approaches – such as is most clearly evident in Europe, but also increasingly in North America – appear more able to address the new issues than global approaches. In some instances, regional solutions make sense; in other cases, they do not. Regional solutions can prove building blocks to greater global cooperation; they can also prove stumbling blocks. There is a need for these issues to be analyzed and explained in order to provide a clearer appreciation of the forums and processes that will control the negotiation of new international rights and obligations

Over the next few years, contentious negotiations will increasingly focus on sensitive domestic regulatory schemes (involving such diverse issues as environmental protection, product standards, competition policy, innovation policy, income and price support programs and cultural identity measures) as governments recognize that these are the new barriers to international economic integration. But these issues raise different negotiating challenges than do tariffs and quotas. In effect, they involve a shift away from disciplining traditional policy rivalry among governments that sought to protect existing investment to disciplining the new policy rivalry among governments that seeks to attract productive new investment. They involve competing values and different political compromises in individual countries. These new issues also require new techniques and approaches. They do not involve concession swapping but rule writing. To a much greater extent, they engage concerns about national sovereignty. As such, it will be much more difficult to develop the necessary consensus and political support for the results of such negotiations.⁹

⁹ In "The Canada-United States Working Group on Subsidies: Problem, Opportunity or Solution?" Occasional Paper 90-3, Centre for Trade Policy and Law, I discuss the highly

Canada has not done well in adjusting to the changing demands of a global economy. Study after study indicates that the Canadian economy, long dependent for its wealth on resource exports but sheltered from the global economy as a result of the National Policy, is adjusting neither rapidly enough nor thoroughly enough to the new forces of global competition. Canadian companies are lagging behind and Canadian policy is not sufficiently geared to the new realities. As a relatively small economy, we need to be ahead rather than behind the international adjustment curve.¹⁰

Trade is an important proxy for indicating the basic competitiveness of an economy. A robust trade performance suggests that an economy is producing goods and services that the world wants to buy at a price the world is prepared to pay. An anemic or declining performance suggests underlying weaknesses. Trade policy and trade promotion cannot alter this fundamental fact of economics. But there remains plenty of scope for trade policy to promote the development of competitive producers and for trade promotion to facilitate their export activities. Part of the role of trade policy lies in its ability to provide a framework of rules which promotes international competition. Canadian firms will become more competitive internationally to the extent they are prepared to meet international competition, at home and abroad. That should be the basic goal of trade policy. Trade policy can thus contribute to making Canada more competitive and more prosperous.

Canadians thus need to find their place in this radically different global trade and economic environment. Business needs to learn to identify and exploit new opportunities in the more competitive business climate of the 1990s. Governments need to adopt policies and programs attuned to this changing reality that will allow Canadian business to adapt and adjust and find its place. Given the importance of international trade and investment to Canada's continued economic development, we need to get ahead of our trad-

contentious nature of international subsidy negotiations and the reasons why substantive rules have evaded negotiators for more than 30 years. The new policy issues outlined below are similarly difficult, underlining the need for more research and analysis.

¹⁰ This is not the place to discuss in detail the challenges posed by the need to become more competitive or the analysis which underlies concern about Canada's competitiveness performance. While competitiveness is in danger of becoming the cliché of the 1990s, the issues involved are complex and very real. The federal Government's Prosperity Initiative and supporting documents as well as the study by Michael Porter prepared for BCNI and the federal government provide ample evidence of the importance and complexity of the issues. The best survey of the problem I have seen to date is a proprietary study prepared by Hay Management Consultants, "Evading the Competitive Challenge: Canada as an Under-Achiever." It is pungent and well researched and combines solid analysis with hopeful and realistic conclusions.

ing partners in thinking these issues through and in developing imaginative yet realistic options at both domestic and international levels.¹¹

The Research Agenda

In the rapidly evolving and radically different world of trade and commerce in the 1990s, there is a compelling need for academic researchers to begin to explain what has happened in the past few years and to build the intellectual capital for future trade negotiations from a Canadian perspective. The 1980s saw great advances in new theoretical approaches to explaining international trade and investment, challenging some of the oldest and most established precepts of economic theory. Some of this was translated into policy prescriptions known as "strategic trade policy." While some of the more extreme claims of strategic trade policy were quickly debunked and disbanded, the enduring lesson is that there remains tremendous scope for new ways to explain the way the international economy now functions and the impact of various policy prescriptions.¹²

One example should illustrate the critical importance of this research. A decade ago, during preparatory discussion for the 1982 GATT ministerial meeting, no one had much inkling of what would be involved in negotiating rules about trade in services. Determined efforts by the United States, with some support from Canada and the UK, to inscribe services on the negotiating agenda, convinced governments and researchers alike that the issues were too complex for immediate negotiation and required extensive analytical work. In the intervening period, the literature involving trade in services has mushroomed and a number of generic agreements have been concluded.¹³ The more limited result emerging from the Uruguay Round on

¹¹ In *A New Special Relationship: Free Trade and U.S.-Canada Economic Relations in the 1990s* (Ottawa: Centre for Trade Policy and Law, 1991), Peter Morici explores some of the implications of the FTA in defining the changing relationship between Canada and the United States in the global economy.

¹² The best introduction to strategic trade policy is Paul Krugman, ed., *Strategic Trade Policy and the New International Economics* (Cambridge: MIT Press, 1987). Nigel Grimwade, *International Trade: New Patterns of Trade, Production and Investment* (London: Routledge, 1989) integrates new theoretical considerations with the changing nature of international trade into a modern treatment of international trade. The debate is given a Canadian focus in Richard G. Lipsey and Wendy Dobson, *Shaping Comparative Advantage* (Toronto: C.D. Howe Institute, 1987) and Klaus Stegemann, "Policy Rivalry Among Industrial States: What can we learn from Models of Strategic Trade Policy?" *International Organization*, vol. 43, no. 1 (Winter, 1989), pp. 73-100.

¹³ The Canada-US FTA was the first trade agreement to provide general obligations regarding trade in services based on the basic GATT principle of non-discrimination. Since then, Australia and New Zealand have expanded their free-trade agreement to cover services. The EC-92 program also provides for a more open regime for trade in services among the EC member states.

services suggests, however, how quickly the negotiators have exhausted the available intellectual capital. If more robust rules are to emerge in the future, it will only come about if the requisite analytical work is pursued and translated into policy and negotiating proposals.

Similarly, the federal government has found very little room to manoeuvre in its approach to international discussion of intellectual property because of the political minefield created by Canada's approach to the protection of pharmaceutical patents. Public discussion concentrated almost exclusively on this single issue because insufficient attention has been focussed on Canada's broader interest in forging a global set of rules to govern intellectual property protection.

Of course, in-depth analysis does not automatically lead to greater public understanding of fractious issues and acceptance of controversial solutions. Canada has been well served by the independent analysis of its agricultural economists who have examined the costs and benefits of Canada's supply management policies and the costs and benefits of greater discipline on world trade in agriculture!¹⁴ The issues, however, remain politically controversial. Nevertheless, whatever the outcome of the discussion in Geneva on the disciplines to be applied to world trade in agriculture, there is more than sufficient independent analysis and intellectual capital on which negotiators can draw and on which to base a vigorous but informed public debate.

What then are the research issues for the 1990s? While no list of issues requiring further research and analysis can be exhaustive, the trade policy research agenda for the 1990s should include consideration of a range of issues regarding both the content and form of future trade negotiations. Issues of content would include:

- Competition policy. The reorganization of industrial production along global lines involving networks of companies has both engaged and eluded the capacity of national regulators to promote and protect competition. Different regulatory regimes and enforcement policies are becoming sources of conflict between governments. For example, global oligopolies are using antidumping policies to discourage price competition. Mergers and acquisitions in different jurisdictions are evading the reach of national regulators. What is the scope for international agreement on basic competition standards? What kinds of

¹⁴ See, for example, J. C. Gilson, *World Agricultural Changes: Implications for Canada* (Toronto: C.D. Howe Institute, 1989); William M. Miner and Dale E. Hatheway, eds., *World Agricultural Trade: Building a Consensus* (Halifax: The Institute for Research on Public Policy, 1988); and Grace Skogstad and Andrew Fenton Cooper, eds, *Agricultural Trade: Domestic Pressures and International Tensions* (Halifax: The Institute for Research on Public Policy, 1990).

cooperation are possible to ensure enforcement? What kinds of policies in one area are undercutting competitive behaviour in another? Are trade and competition policies in conflict?

- Innovation policy, e.g., fiscal, subsidy and government procurement policies adopted by governments to attract knowledge-intensive industries. What impact do these policies have? Is it possible to negotiate basic rules about the appropriate role for governments in encouraging basic and applied research?
- Subsidies. The role of subsidies in economic life and the degree to which subsidies distort international trade and investment remain an important area of research and analysis. Extensive subsidy agreements have eluded governments for more than thirty years. Even if there is a breakthrough in the Uruguay Round or the NAFTA, different views of the appropriate role of government in society remain a potential source of conflict and thus an ongoing candidate for further negotiations. Can we build on the Uruguay Round experience in the FTA or NAFTA? Is it possible to negotiate agreements that obviate the need for the unilateral application of trade remedies? Is Canada prepared to undertake rigorous subsidy disciplines? To what extent are the provinces prepared to be bound by international subsidy agreements?
- Labour/social policy interface with trade policy. With the disaggregation of production and its easy re-location to low-wage countries, there is increasing pressures on governments to address the erosion in opportunities for standard production workers in advanced industrial economies. To what extent can labour market and related social issues be addressed through trade negotiations? Will the pressure to protect specific jobs replace earlier protectionist pressures to protect specific investments?
- Regulatory policies. As national economies become ever more integrated, the scope for conflict arising from differing regulatory schemes will proliferate – involving, for example, local content rules to promote cultural identity, income support programs for farmers or fishermen or environmental clean-ups for pulp and paper mills. As a result, more and more issues traditionally considered to be strictly domestic will become the subject of international negotiations. These negotiations will involve commitments leading to greater policy harmonization – a politically contentious issue in many cases – as well as disciplines setting out the degree of tolerable policy rivalry. What regulatory schemes are likely to be early candidates for international negotiations? Where do Canadian interests lie? What kinds of norms should we be looking for regarding some of these issues? What are the policy fields that would benefit from the experience of limited regional ar-

rangements? What have we learned about this kind of negotiation from the Uruguay Round experience in negotiating intellectual property, investment, services and product standards?

- Product Standards. One of the earliest domestic regulatory issues to become the subject of trade negotiations was that of technical barriers to trade and some progress was made in the areas of transparency and non-discriminatory application in the GATT and in the FTA. The agenda has now been extended to deal with the substance of product standards and processes, a much more difficult challenge. To what extent is Canada prepared to accept international health and safety standards and subject Canadian standards to international scrutiny and dispute settlement? To what extent is Canada prepared to live with the best international practices? Are we prepared to justify higher Canadian standards on the basis of objective tests?
- Trade/Environment Issues. The opening years of the 1990s have already identified the trade and environment interface as being one of the most contentious and intellectually challenging new issues. Trade negotiators, one of whose most basic operating assumptions is that successful trade negotiations help to promote economic growth, have now been challenged by a group of policy makers operating from within a philosophical framework that questions the whole ethos of economic growth. How can the differences between these two solitudes be bridged? Is a trade agreement the appropriate vehicle for promoting environmental goals?
- Dispute settlement. The successful conclusion of agreements covering some of these contentious issues may well require more robust dispute settlement provisions than currently exist in most international trade agreements. To what extent should we begin to look to greater third-party dispute settlement? How binding should decisions by dispute settlement bodies be on governments? Is it possible to build on the model of the European Court of Justice in adjudicating disputes in other regional agreements? To what extent should private parties have access to international adjudicatory bodies? To what extent should governments vacate the field of dispute resolution involving complaints between private parties in different jurisdictions?

As the content of trade negotiations becomes broader and more complex, attention will also need to be given to the most appropriate forums for negotiation and to defining the best forms of international cooperation. Research questions relating to this set of issues include:

- Regional Agreements. The last few years have seen the mushrooming of regional economic arrangements. In Europe, older regional ar-

rangements are being deepened, strengthened and expanded. In the Americas, new arrangements are being contemplated and older arrangements have gained new leases on life. In Asia, various schemes are under consideration. To what extent are regional agreements here to stay? Are more regional agreements an appropriate vehicle for the pursuit of Canadian interests? Is it inevitable that these regional arrangements be organized around the major regional economy? Are the FTA and NAFTA singular arrangements addressing unique circumstances or should Canada be prepared to extend the NAFTA to include other countries? Is the NAFTA an embryo for a Western Hemisphere trade arrangement or could it have wider application? Should Canada consider new arrangements across the Atlantic and Pacific? Do we pursue any such initiatives alone or in concert with the United States?

- Interregional Linkages. Are we heading toward a tri-regional world – Europe, the Americas and Asia – for trade and investment? Should future economic negotiations be organized to take place between the regions?
- Regional/Multilateral Linkages. As regional arrangements deepen and proliferate, is there a continuing role for multilateral negotiations? What should be the focus of future multilateral negotiations? Do they consolidate the work of regional arrangements? Are regional arrangements building blocks toward greater global cooperation? Should regional arrangements stand on their own merits or become dependent on or subsidiary to global arrangements?
- World Trade Organization. What role is there for a world trade organization? Can a stronger organizational base for world trade rules lead to better rules, quicker and more equitable dispute settlement and more certain enforcement? How should such an organization be structured?
- One agreement or various interrelated arrangements. The GATT has now become a very complex arrangement involving various interrelated agreements. NAFTA negotiations involve a main table and parallel negotiations on a group of ancillary issues – environment, labour markets and adjustment. Services negotiations do not include air services, which are covered by a separate set of agreements. Is it in Canada's interest to promote the integration of various international economic instruments? Are there potential tradeoffs and gains to be made from such integration?
- Federal/provincial rights and obligations. The content of international economic negotiations are reaching deeper into national economic life and involve more and more issues of provincial jurisdictions. Are we organized to address provincial issues in international negotiations?

What are the best ways to ensure provincial consensus and compliance?

- Consensus-Building. The past decade saw great strides in strengthening formal mechanisms for consulting both the provinces and private sector interests. There remains room, however, for examining better ways to build broader consensus among the Canadian public on trade policy issues. Are there better ways to engage Canadians on the issues raised by trade negotiations? How can Canadians be made to think more positively about the interaction between the domestic and international economies?

Some of these questions lend themselves to quantitative analysis; others require legal analysis. Some need basic exploration to understand the implications for Canada, others require analysis of Canada's strengths, weaknesses and interests. Whatever the approach, future research and analysis should begin now and proceed on the basis of a much more thorough appreciation of the changing commercial and political context within which the issues will need eventually to be addressed. In short, research and analysis needs to be forward-looking and build on the seminal changes in attitude and perception in Canada since 1985. What we cannot afford is too much more research – and public debate – based on circumstances and phenomena that no longer exist.

Conclusions

The increased awareness in Canada of trade policy issues over the past few years has brought both immediate challenges and long-term opportunities. With increased awareness has come more controversy and public debate. As a result, the Government has had to engage in greater public management of Canada's approach to individual issues. The energy and resources devoted to this aspect of trade policy (consultations with the provinces and with industry and labour as well as press briefings) may at times make policy makers look back fondly to a simpler and less controversial era. But this greater awareness has also stimulated greater interest by academic and independent analysts in trade policy issues. This greater interest is of tremendous potential benefit to Canadians. To reap those benefits, however, policy analysts and policy makers will have to achieve a more efficient division of labour.

The time horizon of policy makers is of necessity short-term. In a democratic society, policy is designed within the confines of the competing pressures of special and general interests and requires compromises. Decision-makers practice the art of the possible and they do so on the basis of very short time horizons. In designing policy and reaching decisions, they rely on the intellectual capital accumulated over previous years. If that intellectual capital is rich and varied, it should provide a sound basis for decision-

making; if it is shallow and narrow, the resulting policy is more likely to prove a mistake than a solution. Policy makers thus are critically dependent on the background work done by analysts.

Some of this analysis is done within government and benefits from the specialized knowledge available only to governments. Much of this in-house analysis, however, also suffers from being too close to the political process and for being short-term in outlook. The analysis done by independent scholars is thus likely to be more disinterested and varied and based on a much longer time horizon. If done well, it will influence policy making; if not, it will be dismissed as suffering from academic irrelevance. Good research is thus critically important if Canadian policy makers are to exercise wise choices in the years to come and bring Canadian influence to bear on international economic negotiations. The challenge is to ensure that the research undertaken reflects the issues that Canada will need to address. In that sense, policy makers need the researchers and the researchers need the policy makers. There has never been a time when there was greater need for dialogue.

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