

# *Statement*

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**NOTES FOR AN ADDRESS BY  
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TO THE ECONOMIC STRATEGY INSTITUTE,  
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Last week the international community finally agreed on a new Director-General for the World Trade Organization [WTO] – three months after the deadline had passed and almost a year after the WTO's triumphant launch in Marrakech.

This inauspicious beginning reflects more than a flawed process to select heads of multilateral institutions – though this is surely a subject worthy of concern. The inability of North America, Europe and Asia to reach agreement on this issue was in many ways symbolic of a more fundamental challenge facing the world economy: how to ensure that the increasingly powerful forces of regionalism – especially among the so-called triad economies – remain building blocks of the broader multilateral order.

For regardless of the great expectations invested in the new WTO, its success will largely depend on the role that the regional blocs choose to play in the months and years ahead.

This is not to rekindle that old and sterile debate about the virtues of multilateralism versus regionalism. If we have learned anything from events of recent years, it is that dynamic, outward-looking regionalism can be a powerful engine of worldwide trade and investment liberalization.

In a world where economic barriers are becoming so many self-inflicted wounds – a sure way of being isolated from increasingly global investment and production decisions – we are all facing irresistible pressure to keep pace with market liberalization. Countries enter into free trade relations to increase their competitive edge, only to find others joining the race for fear of losing out on investment, technology and market access. Bilateral and regional trade initiatives generate their own competitive dynamic – a race to liberalize further and faster – yet with the cumulative effect of advancing the frontiers of worldwide free trade.

Regionalism, far from being antithetical to multilateralism, may be the most direct path to the new global economic order. The Canada-U.S. Free Trade Agreement paved the way for NAFTA [the North American Free Trade Agreement], which in turn prompted the push for hemispheric free trade. Ripples have spread into Asia where APEC [the Asia-Pacific Economic Co-operation forum] has recently committed itself to transpacific free trade.

Meanwhile the European Union [EU] is proceeding with its own plans for expansion both northward and eastward – all the while observing anxiously the dynamism of Asia and the Americas. There are trade strategies at work here, but not in the sense meant by the so-called new trade theorists. This is not a zero-sum game; it is an ongoing dialectic generating dynamic growth.

For Canada, regionalism is not an end in itself; rather, we are encouraging the expansion of regional blocs so that we might eventually supersede them. This is why it is important to keep NAFTA's momentum alive. On one front, we are working hard to expand

the Agreement to other countries - to widen the circle and to spread the rules.

The addition of Chile to NAFTA will represent more than access to a market of 14 million: it will provide a critical link with South America, it will help push the pace of overall hemisphere integration, and it will help ensure that the NAFTA architecture remains fundamentally open and dynamic.

With Chilean accession will come the need to replace the name "NAFTA" with "AFTA" or some other such acronym; but this is more than merely a semantic change. It will reflect real progress made toward hemispheric free trade within 10 years. Equally, we are working to deepen what we have already achieved in NAFTA and to begin the process of negotiating an expanding range of difficult issues.

Of these issues, none is more important to Canada than our efforts, in the two NAFTA working groups, to achieve mutually agreed trade rules that can reduce or eliminate the arbitrary application of trade remedy laws - laws that really have no economic rationale in a free trade area.

What underpins this overall strategy - deepening the rules as well as broadening the membership - is the central idea that only by moving forward will NAFTA remain a building block, rather than stumbling block, for global free trade.

In APEC, too, our goal is to keep the momentum building, to push for a broadening and deepening of the architecture, and to ensure that the collective focus is outward and expansive.

APEC's commitments in Bogor, Indonesia, last November are nothing short of revolutionary: free trade between the United States and Japan in 15 years; free trade between the United States and China in 25. Indeed, the very dynamism of the Asian economies gives APEC a special significance. This region has become the focal point of immense shifts in the global economy.

Beyond the continued and rapid growth of Japan and the "Asian Tigers," the region is the cradle for the emergence of two enormous and hitherto closed economies: China and India. More quickly than most realize, their emergence will send shockwaves through the global economic system - shockwaves that will need to be managed and ultimately absorbed, principally through membership in the new WTO, but increasingly, at least in the case of China, through membership in APEC.

This will make the Asia-Pacific region, almost by definition, a key arena in which the trade policy issues of the future will be played out.

It is clear that regional blocs are driving the trade agenda forward in a manner and at a pace not easily achieved in the more traditional GATT [General Agreement on Tariffs and Trade] framework. Less clear is where all of these disparate paths are leading. Perhaps regionalism will expand seamlessly toward global free trade.

More likely progress will be fraught with difficulties as long as the relationship of the blocs to each other – and to the multilateral system as a whole – remains ill-defined. If regional momentum outstrips the WTO, do we risk creating a vacuum between the blocs?

Are we losing the foundation – in terms of rules and structures – for transatlantic or transpacific discourse? Worse, is our preoccupation with regional architecture blinding us to our wider global interests? In pushing regionalism forward we must be conscious that at some point we will need to confront the issue of how our various blocs interact and how, when rules and structures overlap, an eventual convergence might be orchestrated.

Ideally these and other issues would be resolved in the new WTO – and indeed this remains Canada's fundamental objective. By encouraging an ambitious and forward-looking WTO, we can raise the level of the multilateral order and ultimately render meaningless any notion of regional exclusivity.

After all, in a world of truly free trade, preferential agreements will melt away like the snows of yesteryear.

But at this point, it is probably unrealistic to assume that the hundred-plus members of the WTO could, in unison, liberalize sufficiently to catch up to the regional blocs. It would be equally unrealistic to assume that the regional blocs would willingly open themselves up to the rest of the world on a most-favoured-nation basis.

Not only would this fail to address the issue of "free riders," it might even weaken the competitive dynamic that is helping to drive the global trade agenda forward.

An alternative is to begin to devise ways of bridging the blocs.

It is this need – the need to draw together the regions and to avoid confrontation – that lies behind Canada's recent challenge to the EU to consider free trade with NAFTA.

Now that Canada has committed itself to free trade with Latin America and free trade with much of Asia, the continued existence of barriers to trade with Europe seems increasingly anomalous.

This is especially true since the transatlantic link is already one of the most integrated in the world – a link defined by an increasingly intricate web of investment and technology.

Surely, it should be possible to deepen North America's relationship with Europe more easily and more quickly than with any other region of the world. Indeed, the goal would not simply be to enhance access to each other's markets, but to build upon the dynamism, competitiveness and critical mass of the transatlantic economy - as our Prime Minister has suggested, "to re-energize our economic relationship."

In any discussion of transatlantic trade, there are difficulties that immediately come to mind, not the least of which is the negotiation of agriculture. But why set out to stumble? Why not commit ourselves at the outset to a much larger, more far-reaching undertaking, leaving detailed negotiations to those specific issues on which countries cannot agree?

For a start, we could propose the removal of all industrial tariffs by a specified date, mirroring in many ways the commitments we have already undertaken in various regional fora. Investment is another area where progress might be more meaningful in transatlantic context rather than on a broader, less homogeneous front. Such an approach could also lend itself to ambitious work on a code of conduct defining fair rules of competition.

In fact, an ambitious North Atlantic free trade agreement could provide the core of a new approach to trade and investment liberalization that avoids the inherently exclusionary nature of regional blocs. After all if we can commit to free trade in the Americas, free trade in APEC, and possibly free trade across the Atlantic, at some point there is potential for a free trade agreement that bridges all of the blocs - a kind of WTO-plus. Membership would depend not on region, but on a willingness to commit to more intensive, more comprehensive rules-based trade and investment. By forging a coalition of countries willing to move further and faster toward free trade, North America and Europe would have assumed a leading role in advancing the new global economic order.

One obvious advantage of a WTO-plus is that it would iron out the complexities of a world of multiple bilateral and regional free trade agreements. At a minimum, we would go a long way to ridding ourselves of increasingly complex rules of origin. The continued existence of low tariffs, coupled with rules of origin, impose a transaction cost on cross-border transaction that is out of all proportion to the purported benefits to protected industries.

It is time to acknowledge that the era of the tariff is finally over, and to get on with other, more pressing and difficult issues. But the real virtue of a WTO-plus is that it would avoid the them-versus-us mentality associated with regional blocs.

While it would be salutary to think that the world's major economic powers will embrace a universe of free trade with enthusiasm and confidence, I am less than sanguine. There is still strong pressure

for governments to be mercantilistic, especially in areas of high-technology. Listening to Lester Thurow, one would assume that North America is already engaged in a life or death struggle with Europe and Asia for technological supremacy – a struggle where there will be clear winners and losers and where so-called strategic trade policy will play a major part.

Even those governments that embrace the ideas of Adam Smith often have a rather selective reading of comparative advantage – that it is their destiny to supply the world's high-tech goods and services, while the rest supply cheap labour and raw resources. Although, ironically, it is the knowledge-intensive sectors that are probably least susceptible to government manipulation, this will not stop governments from trying. In a world defined by regional blocs, there is always danger that trade competition may dissolve into trade conflict.

All of this begs a more fundamental question: does the world still have the stomach for trade liberalization? My simple – if not simplistic – answer to this question is that we really have no choice. Trade liberalization is following, as much as leading, underlying economic trends.

Semiconductors, fibre optics, satellite communications – these and a myriad other technological innovations are fashioning a world economy from the bottom up. But while policy makers can take little credit for the movement toward global free trade, we can ensure that the rules and institutions governing this new global reality are not simply imposed by the larger players. What we have, in other words, is a responsibility for ensuring that the transition to globalization is as fair and equitable as possible.

Canada is well placed to help construct this new architecture. We played a leading role in advancing the idea of a World Trade Organization in the 1980s. We have been active and, I hope, creative partners in NAFTA and APEC in the 1990s. We are now seeking new bridges to the European Union.

But beyond these initiatives, we as a country are committed to an over-arching ideal. The notion that the rule of law is the essence of civilization, both within and among nations, is central to Canadian values. Remaining in the vanguard of those countries working to expand the international rule of law is perhaps the most important and enduring contribution that Canada can make to the new global civilization.

Thank you.