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A CANADIAN PERSPECTIVE ON TRADE INTEGRATION IN THE AMERICAS

*Terry Collins-Williams**

INTRODUCTION

THANK you, Professor Norris Pettis for the introduction. I also want to thank Professor James Hollifield and Kathleen Cooper for inviting me to participate in this conference. As well, I bring you greetings from the Department of Foreign Affairs and International Trade in Ottawa, Canada, a supporter of this conference, and my former employer, who saw fit to recommend that I participate in this event. I must emphasize that I am speaking today in my own capacity.

I am grateful for this opportunity to participate in your discussion. I am heartened by the interest in and commitment expressed here to trade expansion across the Americas.

In my remarks, I will try to give you an impression of Canada's approach to trade policy and negotiations, particularly in the context of our trade with the Americas. I will explore some of the challenges relating to regional trade integration in an era of globalization. From my perspective as a former trade agreements negotiator, I will examine options available to pursue integration and trade liberalization, including multilateral and regional, or other preferential approaches. Finally, I will comment on some of the specific initiatives Canada has embarked on to deepen trade ties with our neighbors in the Americas.

For Canada, trade is a vital component of our economy. According to the World Trade Organization's Trade Profiles, Canada's trade to GDP ratio for the years 2004 – 2006 is 72.3, making us one of the most trade dependent nations in the developed world. Significantly, 82 percent of our exports are destined to the United States market, meaning that bilateral trade with the USA dominates our global and hemispheric trade relationships. In turn, 55 percent of our imports come from the United States. By comparison, only 1 percent of our exports and 4 percent of our imports are accounted for by our next largest American trading partner, Mexico.

Canada's trade dependency, though high among developed countries, is not out of line with many of our trading partners in the Americas. For example, Argentina has a trade to GDP ratio of 64, Chile of 73, Costa

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Rico of 102, Jamaica of 105 and Mexico of 63. (By comparison, the United States trade-to-GDP ratio is 26.)

The importance of trade to all of our economies, to a greater or lesser degree, dictates that we pay close attention to the challenges of global competitiveness. Over the last three decades, a confluence of factors including unprecedented advances in technology, rapidly rising investment flows, and re-organization of means of production have spawned the phenomenon known as globalization. Goods, services, information, technology, and capital can now originate in, and move to or from practically anywhere in the world.

In this period, trade has expanded at a rapid pace, far in excess of global production. Trade has been one of the key vehicles in the intensification of globalization, which undoubtedly explains why trade and its institutional representation, the World Trade Organization, have become prime targets for the critics of globalization. It was not accidental that the rise of global trade integration coincided with the creation of the WTO. One of the principal results of the Uruguay Round of trade negotiations in 1995 was to transform the General Agreement on Tariffs and Trade (the GATT), a contractual arrangement governing trade relations among nation signatories dating back to the post-war Bretton Woods initiatives, into a full-fledged international organization. The establishment of the WTO reflected recognition, by the overwhelming majority of countries involved in the international trading system, that the process of trade liberalization and the emergence of increasing economic interdependence required an institutional and constitutional base beyond the GATT. In this way, governments explicitly recognized the gains which accrue from entering into durable and binding trade commitments and providing a structured and functionally effective means to harness the value of trade.

However, the trading system, as reflected by the WTO, is facing numerous challenges, and not just the inability to date to bring to closure its latest set of multilateral trade negotiations. Clearly, the dynamics of global commercial politics are changing dramatically. No longer is economic power concentrated in the hands of a few industrialized countries. While the share of global trade among the new economic powers of Brazil, Russia, India, and China has doubled in the past ten years, the OECD Members' share has declined by more than 10 percent. The days are past when the United States and the European Union can determine the agenda and outcomes of multilateral trade negotiations between the two of them. At the same time, public support for trade liberalization is seeing marked decline as the perception takes hold that the rise in competitiveness of newly industrialized states, and especially of China, is having negative consequences for labor and incomes in developed countries and elsewhere. Yet, the reality is that international trade contributes massively to economic growth, as witnessed by the extent to which Canada's economic performance has been fuelled by trade. Moreover, it is well understood that successful countries in the global economic race have consistently practiced trade liberalization.

How has the Latin American and Caribbean region fared in this era of international trade competition? In the period 1991 to 2000, exports grew at a rate of over 9 percent annually and from 2004 to 2006, at rates over 20 percent per year. At the same time, many of these countries have been at the forefront of trade liberalization. Between the mid-1980s and 1990s, the average external tariff in the region declined from over 40 percent to 11 percent. Nor have Latin American countries shied away from economic interaction with the Chinese juggernaut. In 2005, Latin America was the second largest recipient of Chinese direct investment among regions of the world, trailing only Asia. In 2006, trade between Latin America and China rose to over seventy billion dollars, a sevenfold increase from the year 2000.

If we accept that trade liberalization makes a significant contribution to economic growth, how then is it accomplished and can it be advanced? The current international trading system was established in the wake of the disastrous experiences of the 1930s Depression. The world economy was thrown into chaos by the adoption of "beggar thy neighbor policies" on the part of the largest traders, closing borders to trade by a combination of massive tariff hikes and currency devaluations. In the wake of this disaster, the GATT was set up in the post-war period to provide the foundation for nations to cooperate in international trade, to provide predictability, transparency and stability in trade relations, and to offer a forum for rule-making and liberalization. Successive rounds of trade negotiations have been conducted under the auspices of the GATT. The first seven of these, from the late 1940s through the 1970s, mainly addressed tariffs and other border measures impeding trade. In the 1980s, a more comprehensive approach was launched at Punta del Este, taking multilateral trade negotiations more deeply into the realm of domestic economic regulation as it affects trade, culminating in the establishment of the World Trade Organization and the Uruguay Round Agreements.

More recently, Members of the WTO launched a new round of multilateral trade negotiations in Doha in 2001. This round is named the Doha Development Agenda in recognition of the aspirations of developing members to fashion a negotiating agenda which would address their concerns. The Doha Declaration gives prominence to the needs and objectives of the Latin American and Caribbean region by recognizing, inter-alia, the importance of correcting and preventing restrictions and distortions in world agricultural markets; in reducing or eliminating tariff peaks, high tariffs, tariff escalation, and non-tariff barriers to products of export interest to developing countries; and in the implementation and interpretation of the TRIPs Agreement in a manner supportive of public health. Naturally, agriculture is a high priority for many Latin American participants given that the region is probably the most efficient agricultural and agro-industrial producer in the world. According to estimates by the World Bank, Latin America, and MERCOSUR countries in particular, would be the largest beneficiaries of meaningful agricultural trade liberalization. Unfortunately, negotiations to date have not been capable of producing such a result. That is not to say that Latin American countries should lose hope or interest in the Doha Round. Indeed, multilateral negotiations offer the only venue where comprehensive liberalization in the agriculture sector can be achieved, particularly for the issue of subsidy disciplines. As has been demonstrated in the FTAA experience, major agricultural trading powers in any one region are not going to agree to dismantle subsidy programs to their agricultural producers and exporters thereby leaving the field free to a non-participant outside the region, such as the European Union, to continue distorting international markets. It is this agricultural liberalization imperative that makes Brazil, in my opinion, one of the major demanders to complete the Doha Round negotiations.

Evidently, multilateral negotiations are not the only means by which to achieve trade liberalization. First, it must be said that as much, if not more, liberalization has been achieved by unilateral measures, as through international negotiation. Governments and private sector participants have often recognized that tariff cuts or deregulation within an economy can be powerful tools of growth. Even in these instances, however, international agreements are of use as they can provide the international commitment and sometimes the means of enforceability to bind these unilateral reform measures against future changes.

Going back to the international dimension, clearly multilateralism is not, nor should it be, the only approach to liberalization and to the negotiation of trade agreements. Indeed, plurilateral trading arrangements abound and have been proliferating rapidly in recent years. Of the three hundred such arrangements notified since the inception of the GATT, almost two hundred have come into effect since 1995. It has been said that Mongolia is the only WTO Member which is not a party to some form of preferential trading arrangement. These plurilaterals can take many forms – Customs Unions such as MERCOSUR with common external tariffs, bilateral or regional free trade agreements, and less formal economic cooperation arrangements.

There is quite a debate among trade commentators as to the merits and demerits of multilateral versus preferential trade arrangements. Two recent high level reports, that of the Sutherland Board on the future of the WTO and that of the Warwick Commission, entitled the *Multilateral Trade Regime: Which Way Forward*, have expressed concern that the proliferation of plurilateral trade agreements threatens to damage the international trade system. They see PTAs undermining the fundamental principle of non-discrimination on which the WTO is founded, excluding non-participants from trade benefits and distorting trade flows. They express concern about the "spaghetti bowl" approach to trade liberalization in which separate preferential agreements between and among trading nations create divergent and complex rules of origin which might impede investments and production processes for businesses operating across multiple jurisdictions in our increasingly integrated world economy.

From the other perspective, it is held that plurilateral trade arrangements secure benefits that cannot be realized at the multilateral level, where the diversity or sheer number of participants may impede progress.

Thus, a free trade agreement may go further and deeper in terms of policy coverage and commitments than the WTO. In some instances, it can be seen that a free trade agreement can set the tone for subsequent progress at the multilateral level. FTAs may also allow participants to hone in on specific trade issues or irritants between the participants which may not attract sufficient attention or priority at the multilateral level.

Latin American and Caribbean countries have been very active in negotiation of plurilateral trade arrangements including four Customs Unions and free trade agreements with partners both within and outside the region. In 2004, about 62 percent of Latin American and Caribbean exports were covered by some form of PTA, a tenfold increase from the situation in 1991.

Let me turn now to Canada's interests and initiatives in the region. Last July, Canada's Prime Minister, Stephen Harper, stated, "Canada's New Government has made clear that re-engagement in its hemisphere is a critical international priority for our country".

Canada is a country of the Americas. This is a fact of geography which in turn has been reinforced by strong historical, commercial, and personal linkages. Our political and economic interests in the Americas are real and significant. For these reasons, in 1989 Canada joined the Organization of American States. Canada soon became the second largest contributor to the OAS budget and has hosted meetings of the OAS General Assembly, the Pan-American Games and the 2001 Quebec Summit which launched the historic Inter-American Democratic Charter.

Canada's trade and investment ties to the Americas are substantial. Canadian private sector investments in the Latin American and Caribbean region have tripled in the last decade to 107 billion dollars in 2006. A few concrete examples may help demonstrate the extent and diversity of Canadian involvement in the area: a Canadian mining company has invested 2 billion dollars in Columbia; a Canadian firm has a chemical complex in Chile worth 1.2 billion dollars; one Canadian bank has investments of over 2.6 billion dollars in five smaller Latin American countries; a Canadian apparel manufacturer invested over 500 million dollars in manufacturing operations in two Central American countries.

Canada has pursued an active trade negotiating strategy with the region. The Free Trade Agreement negotiated with the United States in the late 1980s was subsequently expanded to Mexico under NAFTA. This was followed by bilateral trade agreements with Chile and Costa Rica. From each of these agreements, the return in terms of increased trade is evident. With Mexico, trade over the past ten years has increased about two and a half times, and with Chile almost four times. Our trade with Costa Rica has more than doubled in the last five years.

Before leaving the subject of our Free Trade Agreement with Chile, allow me to digress to a trade negotiating subject close to my heart. In our negotiations with the United States and under NAFTA, Canada held that trade rules governing the imposition of anti-dumping laws should be given special consideration. The removal of trade barriers under a free trade agreement should obviate the conditions in which private firms could practice price discrimination across the border (the condition which anti-dumping measures in theory are designed to counteract). Indeed, under the conditions of an FTA, the continuance of anti-dumping remedies penalizes companies on opposite sides of the border for engaging in practices that are encouraged by competition policy within their respective domestic markets. In negotiations with Chile, we encountered an economically rational trading partner who accepted our argument and agreed to eliminate the application of anti-dumping law to the trade of goods of the other party. This surely is an example of a trade negotiating outcome between two partners which sets a standard for others.

Back to Canada's trade initiatives in the Americas. We have continued to pursue an active negotiating agenda, first with the Central American four – El Salvador, Guatemala, Honduras and Nicaragua, which have been stalled for some time, though I understand our current Trade Minister is determined to get them back on track. Negotiations with Peru have been concluded and await ratification, and negotiations are underway with Columbia, Dominican Republic, and CARICOM. Most recently we have launched exploratory discussions with Panama.

All of these negotiations might suggest searching for a more efficient venue to pursue hemispheric trade liberalization, especially when one considers that most other countries in the region are engaged in similar exercises with an array of trading partners. As we all know, one does not need to search far for the alternative in the form of the Free Trade of the Americas initiative. Unfortunately, that initiative has not proceeded, foundering on much the same issues which are bedeviling negotiations in Geneva: agricultural reform; trade rules; plus hesitancy to take on commitments on investment and procurement.

Canada is prepared to negotiate in whatever form will contribute to trade liberalization and economic growth. I personally do not see there being a preference between multilateral or plurilateral negotiations. The two can and should be complementary. In the late 1980s, Canada made a conscious choice to pursue bilateral negotiations with the United States in parallel with the Uruguay Round multilateral negotiations. In retrospect it can be seen that the FTA outcome later expanded to NAFTA, provided momentum and substantive input to the multilateral negotiations in areas such as services.

And who knows what incentive it may have given the Europeans at the time to step up to the table in Geneva seeing two of their largest trading partners making a bilateral commitment to market opening? More recently Robert Zoelleck, former U.S. Trade Representative, characterized the United States' willingness to pursue trade negotiations on multiple fronts as "competitive liberalization." I take Mr. Zoelleck's use of the word "competitive" in this context to signify competition between and among nations to promote liberalization, not a race between countries to get one up over other trading partners.

CONCLUSION

Finally, I want to conclude with a word about the Washington Consensus itself. Without entering into the debate about the merits or demerits of the Washington Consensus as a model for overall economic policy, I think it is safe to say that the trade elements of this approach, based on a commitment to trade liberalization and open markets, have proven successful to those Latin American countries which have chosen to follow it. I will leave the last words to John Williamson, the "godfather" of the Washington consensus. As Williamson so aptly put it, "I do not detect a groundswell of support for abandoning export promotion in favor of a new wave of import substitution."

Legal and Institutional Dimensions of Reform