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NEW ECONOMIC CYCLE AND INTERNATIONAL TRADE: RENEWED REGIONALISM

Speaking Notes for Perrin Beatty

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I'm honoured to take part in a panel that tackles one of the most pressing issues on the international agenda today—the future of the global trading system. And I'm doubly honoured to be joined by such an impressive set of experts, most notably Dr. Supachai, former head of the WTO and currently at the helm of UNCTAD, an institution tasked with integrating emerging markets into the global economy. I think it's safe to say that he must be busy these days!

As recently as the early 1990s, the developed world accounted for over 80% of the global economic output. But with rapid economic growth in emerging markets over the past two decades, and the impact of the financial crisis—which disproportionately hit rich countries—this share is set to drop to less than half as early as the middle of this decade.

The problem facing Canadian business—which has traditionally focused on American and European markets—is clear.

Since we have a lot of finance folks in the crowd, let me borrow an analogy from outgoing Bank of Canada Governor Mark Carney: Canada's current trade portfolio is heavily weighted towards low risk, low return assets. To avoid stagnation, we need to increase our risk appetite and diversify our portfolio towards these new, high-growth markets.

Despite the need to diversify our trade and investment towards emerging markets, the landscape for Canadian business is daunting. It's no secret that the BRIC economies and their next iterations rank near the bottom of the World Bank's Doing Business index.

In many cases, these countries have developed using different economic models than we are used to today in Canada. State Capitalism, as the Eurasia Group's Ian Bremmer terms it, raises concerns about subsidies and unfair competition, barriers to entry and special requirements or restrictions on foreign businesses. It also places a high premium on political relationships.

There are also major institutional and social risks to operating in emerging markets. Unanticipated changes in government may be accompanied by drastic changes in policies and regulations that can easily wipe out the value of assets. Corruption is often pervasive. Governance gaps can result in companies assuming responsibilities they are ill-suited to fulfill—with severe consequences for their global reputations.

Witness the recent tragedy in Bangladesh, where over 1,000 thousand factory workers producing for foreign companies died due to inadequately enforced construction standards.

As a small country, Canada faces additional challenges. China, India and Brazil can hardly be expected to open or reform their economies on the promise of access to a market of only 34 million people—one that is already relatively welcoming to their products.

So what should Canadian trade policy look like in this context?
The answer is to play our traditional role as a middle power, bringing together the leading economic blocs to build a strong international system of enforceable trade rules.

We used to do this at the multilateral level through our role in the so-called Quad—an informal group of four that also included the US, Japan and the EU. This group helped lead negotiations towards the creation of the WTO and its key agreements in 1993.

The WTO has served the world well, helping to integrate a number of emerging markets into a rule-based global economy, most notably China in 2001. And its dispute settlement body has an admirable record of ruling on trade disputes and securing compliance from members.

But as a rule-setting body that will go beyond tariffs to address the next generation of trade issues affecting Canadian business—including services, investment, non-tariff barriers and the digital economy—the WTO is clearly broken.

The Doha Round is entering its twelfth year with little to show for it. Even a basic agreement on trade facilitation is looking increasingly unlikely.

In its place, Canada has taken a bilateral route to negotiating with emerging markets, with mixed results. On one hand, Canada has swiftly concluded quality deals with Chile, Colombia and Peru. But when it comes to larger countries, like Korea and India, it's proving difficult to achieve the level of ambition we desire within reasonable timelines.

In a number of instances, a regional approach holds more promise for success. By working with like-minded countries to build high standard agreements—but leaving it open to others in the future—we can pool our market size and encourage reluctant emerging markets to come to us.

This is why I'm excited by the prospects of a Trans-Pacific Partnership agreement. Led by the US and other pro-trade countries, the TPP is tackling cutting-edge issues with unprecedented ambition for a group of this size. With the addition of a newly reformist Japan, it now covers 12 countries and 40% of the global economy—enough to entice China, whose government is reportedly considering the merits of joining.

Although Canada only joined the talks last fall, we've already proved our worth as a mediator. On the enforcement of labour standards, for instance, we've proposed a solution that bridges some of the gaps between developed and developing countries.

Canada can also play a mediator role in the budding talks towards a plurilateral trade in services agreement. Frustrated with the lack of progress in the Doha Round, Canada has joined a coalition of 20 other countries tackling services liberalization. Once again, we need to achieve a delicate balance between achieving ambitious goals and ensuring a final deal would be acceptable to future participants like China.

This focus on multi-party deals doesn't mean that Canada should abandon its bilateral negotiations. A Canada-Europe agreement is close to fruition, and we're off to a good start in our direct talks with Japan. Strong outcomes here will serve as a model for other talks and ensure that Canada is at the forefront of new trade norms.

Let's not forget that the WTO's successful dispute settlement mechanism was first agreed to in the Canada-US free trade agreement, signed back in 1988.

Although much of the international work towards a stronger trade regime is likely to take place among advanced economies, Canada must continue to engage emerging markets. Regional institutions like APEC can help share best practices and encourage indigenous reform. Bilateral initiatives, such as the Canada-China Financial Sector Policy Dialogue—and a similar dialogue with India—have considerable potential.

Before I finish my remarks, let me mention an important qualifier: this trade policy I've outlined is only a long-term strategy. But Canadian companies can't afford to wait—especially since many of our competitors have a head start.

In the meantime, it’s essential that our policymakers and business community continue to build new relationships and develop the tools and capabilities to navigate and succeed in these promising, yet challenging, markets.

Nonetheless, I have hope that by working with countries that share our desire for open international trade and investment, we can create common rules that attract new adherents and unleash the growth and prosperity we all desire. We will need to adjust our tactics as conditions change, achieving broad multilateral progress at the WTO when it is possible or using more limited agreements with a smaller number of partners when that route is more promising. However, our goal should be clear and immutable: to remove the impediments that stand in the way of economic growth and opportunity, always moving forward and never allowing our determination to falter.