

**Going Beyond:  
Canada's Contributions, Challenges and Choices  
in International Trade**

**Professor John Kirton  
Department of Political Science  
Centre for International Studies  
University of Toronto**

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## **Introduction: From Seattle to Doha to Kananaskis**

In November 2001, Canada and the more than 140 fellow members of the World Trade Organization (WTO), meeting at the ministerial level in distant, dictatorial Doha, Qatar, launched new “comprehensive” negotiations for multilateral trade liberalization. In many ways, this was an unremarkable event, fully worth being ignored by Canadians preoccupied with the aftermath of the September 11<sup>th</sup> terrorist attacks. After all, Doha was just the latest in a long line of such negotiations conducted at regular intervals since the WTO’s predecessor, the General Agreements on Tariffs and Trade (GATT), had begun its work way back in 1947. Moreover Doha merely broadened the so-called “built in” agenda on agriculture and services liberalization that the WTO parties had already agreed to at the end of their most recent negotiations in March 1994. And it still seemed sensible for Canada once again to reduce protectionist trade barriers through the multilateral, rules-based WTO. For here it had many partners, clear legal rules and an independent dispute settlement mechanisms to protect it from the United States. The apparent alternative was to be left alone to go “mano-a-mano” with the much bigger behemoth, as in the never-ending softwood lumber dispute.

What did make Doha important, however, was the fact that here the WTO succeeded where it had so spectacularly failed two years earlier, in Seattle in November 1999. At Seattle, an outpouring of angry protest and arson by so-called “civil society” stopped the WTO ministers from launching their desired new Millennium Round of trade liberalization. The protestors charged that trade liberalization, and the finance and

investment openness that went with it, were the leading instruments of globalization, an evil force that impoverished ordinary people, destroyed their cherished values, and emasculated the democratic processes through which they could make their voices heard. Invigorated by their Seattle success, the protesters took their crusade on a global tour, to Bangkok for the United Nations Conference on Trade and Development (UNCTAD), to Washington and Prague for the International Monetary Fund (IMF), to Quebec City last April for the Summit of the Americas, then to Gotenberg Sweden for the European Union Summit, and finally to Genoa, Italy for a deadly encounter at the G8 meeting in July 2001.

Canadians, as hosts of the next G8 Summit, in Kananaskis, Alberta, on June 26-7, 2002, are wondering whether this proliferation of anti-globalization protest really did die in Doha, or just took a post-September 11<sup>th</sup> sabbatical to gather strength for the big game back home in June. With the Canadian and G8 economies having slowed together last year for the first time since the 1970's, they further ask if moves toward more trade liberalization will generate the continuing confidence and sustainable growth the world badly needs. And with WTO negotiations historically taking an average of seven years to conclude, rather than the three years promised at Doha, they wonder if they will have to wait close to a decade for results. Are there better ways to bring about the trade liberalization they want?

The answers are clear. Canada's Kananaskis Summit will probably be free of violent protests over trade liberalization and globalization in general. But that does not mean that

the real concerns about making globalization work for all will disappear. Doha was indeed an important step forward, particularly after the stalemate at Seattle and the growth-stopping, border-closing shock of September 11<sup>th</sup>. But its leisurely pace and particular path do leave much to be desired. The good news is that Canada has choices, and ones that can get it the kind of trade liberalization it wants.

Canada can move beyond WTO-based multilateralism and act **regionally**, where its partners have promised to deliver a Free Trade Agreement in the Americas (FTAA) by 2005, and another across the Asia Pacific Economic Community (APEC) by 2010. It can act **continentally**, by deepening its North American Free Trade Agreement (NAFTA) from trade and investment to financial and labour liberalization and even into a full economic union like the Europeans have. It can act **bilaterally**, by crafting free trade agreements with individual partners around the world. It can act **unilaterally**, with Team Canada-like trade promotion and by reducing its own trade barriers to give Canadian consumers more choice at less cost. And it can act plurilaterally by forging a twenty-first century socially and ecologically-enhancing free trade agreement within the G8 itself.

These are not just academic alternatives. For Canada has been pursuing these paths with some success for the past several years. The current challenge is combine these alternatives into an overall strategy that quickly gives Canadians the socially sensitive trade liberalization they want and need.

## **1. What Canadians Need and Want from International Trade**

In constructing such a strategy, it is first necessary to ask: what do Canadians really need and want from international trade? The basic answer is unfettered access to global markets, so that they can easily and inexpensively sell and buy goods and services abroad. But Canadians also want their trade to protect and promote their cherished environmental and social values, and to do so at home and abroad. And while they see safety in the many partners, strong rules and independent institutions the WTO offers, they are quite willing to pursue different paths to construct a better balance between their trade liberalization and social concerns.

Since the very start, Canada has depended on international trade, investment, finance and migration to survive as a country, and to thrive as one of the major powers in the world. But centuries of protectionism, war and depression made it difficult for Canadians to get the assured access to international markets they needed. It was only when the second world war ended that GATT began the slow process of lowering barriers among the more important countries in the world. But the real breakthrough came in getting full access to the world richest market, right next door in the United States. Continental free trade came first in defence production and agricultural machinery during the second world war, and then in automotive products with the historic auto pact of 1965. From there it was a small step economically, if a big step politically, to conclude a comprehensive bilateral free trade agreement with the United States in 1988, and add Mexico to it in NAFTA in 1994.

The results and rewards of this trade liberalization are now clear. Canada is by far the most trade dependant country within the Group of Eight major powers. Over one half of the private sector Canadian economy – the 80% not directly delivered by governments – produces for the export market, overwhelmingly in the United States. Most of the jobs, incomes, taxes and economic activity that come from producing electricity and aircraft in Quebec, automobiles and defence products in Ontario, oil, gas and wheat on the prairies and forest products in British Columbia all depend on those export markets and thus on free international trade. Canadians producing for the export market are paid better than those working exclusively for customers at home.

All Canadians as consumers also benefit heavily from the lower cost, higher quality, more diverse imports that free trade brings. Just think of the origins of the products you will use or purchase today and you will instantly understand how impoverished we would be if we could not get, or had to pay more for, our tea and coffee, fresh fruit and vegetables, imported cars, computers and clothing, US-made television programs, required readings in books from British publishers and so much more. Consider following the opposite policy – where governments force their citizens to consume only what they produce within their own country. The results are evident in famine-ridden North Korea, or the deservedly former Soviet Union. They are also clear within Canada in those North Korean-like sectors such as supply-managed agriculture, where all Canadian pay three times more for their milk than they would if they had free trade. Richer Canadians do not even notice the dint to their plentiful paycheques. But poor families raising kids on a minimum wage or a welfare cheque pay a proportionately large

and painful price. Their plight proves a basic point – protectionism punishes the poor. Properly designed free trade helps the less privileged most of all.

Thus it is hardly surprising that Canadians, the public opinion polls tell us, solidly support trade liberalization, whether of the multilateral, regional or bilateral sort. Despite their initial doubts about the NAFTA that Brian Mulroney brought them, as its results have become clearer, Canadians have come to approve of it to an overwhelming degree.<sup>li</sup> Jean Chretien placed trade as his first foreign policy priority, in his definitive statement on the subject in February 1995. In the last federal election virtually all parties supported free and freer trade. The only one that did not, the New Democratic Party, did very poorly at the polls. Even through the global financial crisis of 1997-9, and in the post September 11<sup>th</sup> economic slowdown, support for free trade has remained strong.

But the polls also reveal an equally important point - that Canadians are a socially sensitive and ecologically committed folk. For much as they like free trade in their foreign policy, they like environmental protection and other social values even more. These good causes are not the particular passions of a few protesters. They are values shared broadly and deeply by Canadians as a whole, including the steadily shrinking band that still favour separatist parties in francophone Quebec. These values are now a core part of the trade policy of the Canadian government. Pierre Pettigrew, the current trade minister, with cabinet approval, has emphasized that the new trade deals Canada signs must respect environmental, social and cultural values. The negotiations that produce these trade deals must be more transparent and open so all can know what's going on and

voice their concerns. Indeed, the Canadian government has decided that all such prospective trade liberalization agreements must now be assessed, prior to their completion and adoption, for their environmental effects. It has already started this assessment process in regard to the prospective trade deals from Doha and the FTAA.

If forced to choose, then, Canadians will take environmental quality, labour standards, health and safety regulations, human rights and cultural diversity over pure free trade. If their government is to give Canadians the free trade they need for their prosperity, and want for their freedom as producers and consumers, it must thus find a way to craft free trade agreements that protect and promote environmental and social values as well.

## **2. Multilateralism and the WTO**

There are **real doubts** as to whether the broad, multilateral WTO-based system can deliver this broader and more balanced package of socially sensitive, safeguarded, and supportive trade liberalization. For even with its Doha update, the WTO still largely reflects the world of the late 1940's when it, in the form of the GATT, was first born.

The deepest doubt stems from **international institutional imbalance**. In creating a system of global governance for the post world war two period, the victorious allied powers began, at Bretton Woods in 1944, by building powerful international organizations to liberalize finance. To this day their creations, the International Monetary Fund and the World Bank Group, are the most powerful international institutions in the world. By the time the founders took up trade a few years later, the euphoria and energy

bred by victory had faded. Rather than their initially intended, equally strong International Trade Organization, they were only able to create a mere, much weaker, agreement, the General Agreement on Tariffs and Trade.

In the **social sphere**, to protect labour they did nothing new, and thus had to rely on the old and quite ineffective International Labour Organization founded prior to World War One. To protect the environment, they did nothing at all. No United Nations specialized agency was created to care for the planet's ecosystem. No recognition of its value or even existence was included in the United Nations Charter. And the rules of the GATT, in Articles 20B and 20G, gave only the most minimal protections to the environment when it was threatened by trade.

Now, over half a century later, this institutional imbalance in global governance has **widened** rather than narrowed. The ILO has continued essentially unchanged. The United Nations did create a fragile program, rather than a full agency, to deal with the environment in 1972, and added a few small secretariats and conventions to deal with specific subjects such as climate change and biodiversity in 1992. In sharp contrast, the IMF has had its resources and powers steadily increased, especially during the crisis years of 1997-9. And in 1994 the old GATT, at Canadian initiative, finally graduated into a full-fledged powerful international organization, in the form of the WTO. This new WTO reaches down much more deeply and intrusively into the domestic policy of its member governments, in pursuit of its cherished trade liberalization objectives. Yet it does very little to reach out more broadly to include environmental and social concerns.

Whereas the old GATT sought merely to the reduce tariffs, quotas, quantitative restrictions and other barriers on goods at the border, the new WTO sought to control behind-the-border domestic regulations on government procurement, investment, and social policy – indeed anything that might affect and thus unfairly distort trade. Sovereign, democratic governments are thus less able to regulate at home to protect these values that their citizens held.

Taken by themselves at first glance, the WTO's central principles seem sensible. The core purpose of the WTO is *liberalization*. This is done through reducing and removing tariffs and other border barriers, and then by regulating non-tariff barriers (NTB's) to the movement of goods and services across international borders. The basic principle is *nondiscrimination*. This requires, within a country, a rule of *national treatment* - countries cannot discriminate against the products of foreigners by treating them any less favourably than that those of their own nationals, For example Canadians cannot hide imported beer and wine on the back shelves and dimply lit storerooms, and highlight their Canadian made equivalents on the front shelves, at government run beer and liquor stores. It also requires, outside the country, a rule of *most-favoured nation* treatment - countries cannot favour the products of some foreigners at the expense of other foreigners who are party to the trade deal. For example, under WTO rules we must now treat the products from the newest member, dictatorial China as well as we do those from the founding member and democratic United States, largely regardless of how they are produced.

To implement these rules the WTO felt it had had to focus on “like products,” - those whose physical characteristics as they crossed the border were identical and thus received the same treatment wherever they came from and went. What had happened to them before or after they crossed the border – whether they were made using child labour or by killing endangered species, or disposed of once used in ways that despoiled the importing countries environment - was of no concern to the WTO. Who cared how beer bottles, for example, were made, used and disposed of. Who cared if Canadians could label as Canadian “champagne” (“champannyah”) their own wine that really came from the Niagara Peninsula and tasted more like “Chateau Welland Canal.”

To enforce these rules the WTO came with a powerful, independent, judicial-like **dispute settlement** mechanism, where an independent panel of judges quickly decides which countries are breaking the rules. Those found wronged can, with WTO approval, punish their transgressors by taking protectionist action of equivalent commercial value against them. The system has proven to be effective. Even the world’s strongest powers, the US and European Union, have been brought before the WTO court, found guilty, and changed their protectionist policies as a result.

Yet there are **flaws** in the system. One is the rather weak enforcement mechanism. At the end of the day each injured country cannot call upon an international policeman or even round up a posse of all the other members but is left to enforce the law all on its own. Little Lichenstein is left to punish the gargantuan United States all by itself. Another weakness is that the rules that are applied take little account of social and ecological, as

opposed to commercial values. They are applied by panels and international civil servants who have little awareness of or expertise in these broader fields. The process is conducted in private, with little chance for NGO's or citizens to provide input or even know what is going on.

More broadly, in its overall **governance and management**, the WTO is dominated by undemocratic, developing countries, which see social and environmental concerns as protectionist devices or luxuries desired by an already rich north. With each country having an equal vote and a simple majority prevailing in most cases, it is difficult to get anything changed, especially in the direction of greater environmental and social sensitivity. And with the WTO governed by trade ministers who meet only once every two years, there are few chances to get major, political-level change.

### **3. Regionalism and the FTAA**

Because the WTO is so poorly equipped to meet Canadians values, the Chretien government has sought to secure faster progress, toward more favourable outcomes, on a more restricted regional plane. Shortly after concluding the multilateral Uruguay Round and creating the WTO in March 1994, it agreed in November of that year to have full free trade within **APEC** by 2010 for developed country members and by 2020 for the developing country ones. Less than a month later, at the **Miami** Summit of the America's in December, it agreed to have full free trade among all of the 34 democratic countries in the western hemisphere by 2005.

The 1997 Asian financial crisis and Japan's economic stagnation has slowed the momentum in APEC. But even with the current financial crisis in Argentina, the **FTAA** process in the Americas is proceeding on track. The first draft of a deal was concluded last spring, and, at Canada's initiative, made available to the public for comment. President Bush is strongly committed to the project, and is about to get from Congress the trade promotion authority (formerly known as "fast track") he needs to proceed. The current Argentinian crisis have made South American partners less enamoured of the alternative of joining a subregional arrangements, Mercosur, dominated by Brazil.

Yet several **obstacles** remain. All South American countries save Venezuela trade more with Europe than they do with the US or Canada. Most FTAA members are developing countries and thus suspicious of North American style environmental and labour provisions and procedures for civil society participation. And it will almost certainly take another Presidential election in the United States before the FTAA, even if negotiated on time, can take formal effect.

#### **4. Deepening North America and NAFTA**

With the option of broadening NAFTA to embrace all the Americas in some doubt, attention has turned toward **deepening** the NAFTA up north we have already got. There is much that makes this option appealing to Canadians. NAFTA was a **global pioneer** among free trade regimes in including strong provisions, institutions and processes for

environmental protection, labour rights, and civil society participation. Almost ten years after it began to have an impact, we know that **NAFTA works** in the ways it was intended. It has fuelled strong growth in all three member countries, and insulated them from the global financial crisis of 1997-9. With the European Union adopting a common currency, it is natural for North Americans, led by the new Mexican President Vincente Fox, to **drive deeper** and ask why not transform the free trade agreement that NAFTA still is into a customs union with a common external tariff, or a common market with full labour mobility, or even an economic union, with a common currency and policies governing the marketplace as well. The latter option raises the prospect in Canada of “**dollarization**” - replacing the swooning loonie with a strong dollar as the single currency to use

The events of September 11<sup>th</sup> and the resulting closure of the US border to the commerce on which Canada depends, have made some Canadians eager to embrace such a deepening NAFTA option as a solution to their immediate ills. But it has brought new **complications**. The first is **Mexico** - whether the US will be prepared to deepen its economic partnership and open its border to a Mexico it has long seen as a source of illegal migrants and invading drugs, and that has stood largely opposed to the US war on terrorism. The second is whether it will further open its border with Canada, without a degree of **policy harmonization** on a US foundation that Canadians would regard as an unacceptable intrusion on their sovereignty. And the third is whether **Canadians** would be willing to take such further steps toward economic integration at a time when they are moving so far and fast toward continental integration in the military and security sphere.

With overseas markets last year growing more quickly than the United States, with the US border now more closed to Canadian exports, and with Canadian exports growing more rapidly with overseas partners than with the United States, Canadians enthusiasm for a deeper continental solution may start to wane.

## **5. Bilateralism and Unilateralism**

Moreover, Canada does indeed have a credible option of looking outward rather than inward, through the conclusion of bilateral free trade agreements with overseas partners and with the unilateral measures required to take full advantage of the rules that already exist. The process started slowly, at Miami in December 1994, when the three NAFTA leaders agreed to add Chile to the fold. But when President Clinton prove unable to get from his Congress the fast track authority that would allow him to proceed, Canada decided to go it alone. By 1996 it had concluded a NAFTA-compatible bilateral free trade agreement with Chile that included NAFTA-like side agreements for labour and environmental protection. Soon after, Canada added a bilateral agreement with Costa Rica. It has now opened negotiations with the other four Central American states, and with those of Caricom in the Caribbean. At this rate Canada will have free trade agreements with most countries in the hemisphere long before the FTAA arrives in 2003. An all should have the NAFTA blend of full free trade and investment liberalization on the one hand, and strong environmental and social protections on the other.

Canada's impulse for free trade bilateralism has extended well beyond the hemisphere. In the Middle East it has a bilateral free trade agreement with Israel, and more limited arrangements with Jordan and the Palestinian Authority. Across the Pacific it is in negotiations with Singapore. And across the Atlantic, it has designs on the countries of the European Free Trade Area.

This policy of free trade bilateralism has been accompanied by one of trade policy unilateralism, largely through the Team Canada missions that Jean Chretien inaugurated when he assumed office in 1993. These mission have now taken federal and provincial leaders and officials and much of the Canadian business community to most global regions, including even the neighbouring United States. While their impact abroad remains subject to question they have provided access in closed countries where governments control much of the economy, and encouraged Canadians to work more closely together at home.

Unilateralism is also about to embrace real liberalization. For in the lead-up to the Kananaskis G8 Summit in June, with poverty reduction in Africa as its centrepiece, Jean Chretien has signaled that he is willing to give developing countries much greater access to the Canadian markets, for hitherto sensitive goods such as textiles. With the polls showing support for separatism at historic lows in Quebec, where Canada's inefficient and heavily protected textile industry is concentrated, Chretien for the first time in many decades has the domestic political freedom to make good on his word.

Such a network of bilateral agreements and unilateral actions gives Canada, as a “hub”, a network of “spokes” into regional markets on a global basis. It provide a valuable learning experience and a toehold, for government officials and businesspeople alike, to become more involved in distant regions and in countries very different than those in the North American home. Yet to date, Canada’s bilateral free trade partners are all very small countries, whose cumulative economic weight in the world is modest indeed. And there are still many areas of the global community – central and eastern Europe, Australasia and Northeast Asia, that have largely been left out.

## **6. A Future Strategy**

How can Canada construct a strategy for the future from these various components?

First, Canada needs **a new burst of trade liberalization** as a growth and productivity stimulus, at a time when its domestic economy is slowing, and the long reliable United States is both slowing down and potentially closing up. Trade liberalization can provide the productivity enhancements and the balance of payments surplus that will ward off painful choices on the dollarization front.

Second, if such trade liberalization is to be domestically sustainable, it must be **based on the NAFTA model** of strong environmental and labour protections and civil society participation. Here it is difficult to see how the WTO, even with the advances of Doha, can produce anything close to the NAFTA balance within the next decade. While

developing countries have narrowly decided to let the new round be launched, if it is to be successfully concluded it will have to pay particular attention to their development concerns rather than the social values that flourish up north. Canada has a better chance of securing a NAFTA-like balance in the smaller regional FTAA. But with the Bush-Cheney administration now having replaced its Clinton-Gore predecessor, Canada has lost its biggest and best ally in this regard. If either of these slow-moving, old fashioned multilateral or regional convoys are to be pushed in the desired direction they will need to be pushed by credible threats from below.

Third, acting alone with the United States will not do it. Thus Canada's new burst of trade liberalization should **go beyond America** to embrace countries other than the United States. The option of a so-called "two-speed NAFTA", in which Canada and the US alone move toward a deeper integration in the hopes that Mexico will someday join in, will be politically difficult to pull off in Canada. It will also be economically difficult to benefit from in the United States. After close to ten years of NAFTA-driven trilateral integration, the production systems are too trilaterally fused to have Canada-US only solutions make much sense.

Fourth, the next step is to **practice principal power bilateralism** and pursue bilateral free trade countries with overseas partners of ever greater weight. While several middle powers in many regions are potentially attractive, the first great prize is Japan, now for the first time willing to cast off its longstanding exclusive multilateralism in favour of

bilateral options. A second possibility is Britain, which probably has the freedom, despite its EU membership, to do a deal with Canada should it so chose.

The ultimate prize, however, is an **all-G8 full free trade agreement** among Canada's major democratic partners, as a badly needed stimulus to global economic growth and a way of pioneering a socially and ecologically sensitive free trade regime for the world as a whole. U.S. Treasury Secretary Paul O'Neill seemed to signal a desire for such an agreement at the G7 Finance Ministers meeting in Washington last weekend. If the G8 leaders were to launch such a project at their Kananaskis Summit this summer, the surrounding civil society activists would be likely to applaud rather than attack.

## Notes

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<sup>i</sup> John Kirton and Virginia Maclaren, "Forging the Trade-Environment-Social Cohesion Link: Global Challenges, North American experiences," in John Kirton and Virginia Maclaren, eds., *Linking Trade, Environment and Social Cohesion: NAFTA Experiences, Global Challenges*, (Ashgate: Aldershot), pp. 1-26.