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## The U.S. Position in the World Economic Context

*Michael Smith\**

I have been asked to try to put this conference in context, into perhaps a broader point of view. Let me start off by saying, I am not a lawyer; and I may be one of the few Americans who will appear here in the next few days who is not. Indeed, one could ask the question: "Will the recently negotiated free trade arrangement between Canada and the United States become yet another lawyers' relief act?" The proposed 1988 trade bill, the omnibus, or ominous, trade bill, however you want to call it, is certainly going to be another trade lawyers' relief act. I have a different of theory as a non-lawyer. When you lawyers get through, you will have to call on us "trade nuts" to make sense out of the mayhem and chaos that you have created through the maze of laws and regulations which nobody can understand.

Be that as it may, I do want to thank you, Henry, for inviting me to this distinguished institute. This is the first time I have ever been to Cleveland, Ohio. I have been to Tokyo seventy times, but this is my first time in Cleveland.

Let me, if I may, move on to some ad-libbed remarks, which represent more of Mike Smith's personal views than those of the U.S. Government, but I think will probably reflect some of the general thinking going on in Washington.

When one looks at the U.S.-Canadian impact in the world context, it has been said, "We live in the real world." One cannot ignore a significant event that occurred this past fall. Therefore, almost everything, in international trade terms, which involves Canada and the United States, has been overtaken by first, the successful negotiation and then, second, the initialing of the U.S.-Canadian Free Trade Agreement ("FTA").

The FTA has at least three major impacts in the world economic context. One is in the short-term, one is in the medium-term and one is in the long-term. In the short-term, the FTA could, should, and probably will have an impact on the Uruguay Round. The Uruguay Round is either the seventh or eighth General Agreement on Tariffs and Trade ("GATT") sponsored international negotiations and it is trying to particularly address the new areas of trade, that is: services, investment and intellectual property. What was done or not done in the FTA between our two countries will probably serve as some sort of precedent for the Uruguay Round.

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The United States and Canada share many common goals in the Uruguay Round, regardless of the FTA. We have been working together since 1981 in trying to bring to reality what is now being negotiated in Punta del Este. We had the 1982 GATT meeting, chaired by Canada, in Geneva. It was not an overwhelmingly successful international meeting, but it was a meeting at a time when it was needed. The meeting served, in my view, as a welcome precedent to the 1986 meeting in Punta del Este. We shared many common interests and wanted to achieve many of the same goals in this Uruguay Round. So, in this short-term, the FTA has some sort of precedent for the actual negotiations of the Uruguay Round. Also, the United States and Canada, by and large, had the same objectives coming out of the Uruguay Round in general trade terms.

In the medium-term, one might ask, does the FTA present, if you will, an offsetting bloc to growing European and Japanese influence. There is no question that the European Community's relationship at Este results, in essence, in a European bloc of international trade which was not there before. Indeed, one could say there was an American bloc until the European Community and the somewhat formal relationship at Este came into fruition over the last five or six years. Equally, one has to realistically look at what is happening in the Pacific, and the substantially growing influence of Japan, and certainly of Asia, in general.

So you at least have to ask yourself, are you seeing power blocs being built? Does the FTA, either by coincidence or not, present an opportunity as a balancing or an offsetting bloc to those other influences? One could, taking this argument further, look at what happened in the 18th and 19th centuries with the United Kingdom, and how it was always trying to balance such conglomerate agreements for its own political reasons. This time we might be doing it for economic, rather than political, reasons.

In the medium-term context of the FTA, there is no doubt that developing countries still look at the United States principally as the best opportunity for free trade, the major market and indeed the ultimate protector in trade. One could also argue that the FTA, with its now larger and hopefully more unified market, will give developing countries an even greater sense of security than they have had in the North American countries and a market which is sympathetic to their needs, and yet will give them some sort of assurance against protectionist trends elsewhere in the world, particularly among the European and Japanese blocs that I mentioned earlier.

Another point with regard to this medium-term period is that it may be coincidental, but as the United States and Canada finished negotiating the FTA, the European Community arrived at a political decision to make 1992 as the date of the so-called "internal market" in the European Community, i.e., that all the parts of the Common Market Agreement which have not yet been completed, will be completed so the European Community will operate as one market. One has to ask, "What does this

mean?" I do not know precisely what this internal market means, but I can tell you that I get very nervous and have said publically that the term "internal market" has an implication that there is an external market and the internal market is only for the European Community.

That is a very, shall we say, disquieting interpretation and we hope it is not true. But if the past is prologue, one could see the possibilities. It is interesting, the coincidence in time between the negotiations of the FTA and the final decision of the European Community that 1992 would be the year of the internal market. Again, in the medium-term, one has to ask, "Will Japan really ever liberalize and have an impact on world trade?" If it truly liberalizes, then that has to be a very decided plus, at least from a purely parochial U.S. interest in removing some of the pressure that we have been facing over the last two or three years. I think this will be reflected in Canada as well. If Japan does not truly liberalize, that is going to have, I would think, a very, very negative impact over the long-term. What I mean by liberalize is not just for Japan to let in raw logs or raw commodities, but to import the value-added manufactured exports and not just from United States or Canada, but from the developing countries, too. This is a very fundamental question that we will be facing.

In the long-term, with regard to the FTA, one has to ask if this is leading to, if you will, a hemispheric market. President Reagan made some allusions to this in his State of the Union message this year. Admittedly, it is a long, long way down the road, but it is something that we will have to consider.

One does not have to be too knowledgeable to see that Mexico has made some very significant movements in the last year or two by really changing its basic international trade policy. They are now full and very active members of the GATT. They are also trying to get out of import substitutions to the degree that their economy permits. Is it impossible to ultimately see some close economic relationship among Canada, the United States, and Mexico? In turn, what impact would that relationship have south of Panama?

Let me turn, if I may, and put this whole thing in a totally different context, more from a multilateral viewpoint. What is the U.S.-Canada agreement going to mean in a world context? Does the FTA signify the beginning of a new trend? Is it the end of the GATT? Is it the end of multilateralism or the beginning of pluralateralism? Regionalism?

I remember saying once that I did not care whether trade was conducted on a multilateral, pluralateral, bilateral or unilateral basis, as long as it was liberalateral. I do not think there is any question that the FTA is a liberalateral step, and if it is successful, it will have a dramatic impact in the future. But, from the multilateral context, is it a plus or minus? I still think this question is open and will not be answered this year, but it is clearly one at which we, as two countries and founding fathers of the GATT, have to look.

Traditionally, Canada has said this does not affect GATT one way or the other. I would submit from a public point of view that this probably is the right thing to say. But from a realistic point of view, there is no question that the FTA has sent some shock waves through other countries. It is interesting to note that as soon as the United States and Canada began to talk seriously about the FTA, Japan organized a formal demarche on both Ottawa and Washington, protesting this negotiation. It was not quite put that way, but Japan certainly made it clear that they were nervous and for good reason.

The question one would have to ask in that regard then is, "if it is not a new trend or a negative on the multilateral side, will there nonetheless be more FTAs? Could there be a U.S.-Uruguay Free Trade Agreement? Could there be a U.S.-Iceland Free Trade Agreement?" The only reason I mention those two entities is because they have asked us whether or not we would be willing to negotiate a free trade agreement. Now we also have our ambassador in Japan talking very actively about a free trade agreement between Japan and the United States. I submit to you, is this the wave of future?

Even if free trade agreements are not the wave of the future, putting the U.S.-Canada FTA in the world context, there is no question in my mind whatsoever that the FTA represents the consummate challenge to GATT, and I say that in a positive sense. Percy Eastham would be, I think, the first to agree with me that the GATT, in the past ten years, has had a slight hardening of the arteries. It has perhaps expanded too quickly in terms of membership. As a result, it has become increasingly difficult to arrive at good, clean decisions among GATT members.

As you know, the GATT is an organization which works by consensus. There are only two types of voting circumstances in the GATT. Furthermore, Canada and the United States have for years, as a fundamental tenet of the GATT policy, tried to do everything to avoid getting into a voting situation because, quite frankly, we were outnumbered from the day we entered the hall.

So the question that we have to ask as "GATTologists," and I think both Percy Eastham and I would classify as GATTologists, is whether or not the FTA is a challenge to the GATT. I would submit that it is a healthy challenge to the GATT because the GATT must modernize. We would hope, coming out of the Uruguay Round, that steps will be taken to bring the GATT into the 21st century. I am reminded somewhat of the motto on New Hampshire license plates: "live free or die." In a way, the GATT should have little license plates or placards in front of it that read: "shape up or die."

In the United States, if you go up to the halls of the Congress, you are lucky to find anybody who knows anything about the GATT. When I was ambassador to GATT, even my daughter used to ask me "When are you going to be an ambassador to a real country?" Some people

would say, "When are you going to be an ambassador to the real world, if you are ambassador to the GATT."

But at the same time, the GATT is the only game in town. There is no way, in this era, that we are going to be able to come up with another trade organization and if you think so, you are dead wrong.

So the United States and Canada, through the FTA, have thrown down the gauntlet to the GATT. We have completed the FTA, a year after the Punta del Este meeting began. These things are going forward simultaneously, just like the European Community's internal market operation.

I would say in conclusion that the United States and Canada share, as founding fathers, a responsibility to lead the GATT out of the wilderness and the drift that it has been in during the 1970s and early 1980s. We should see if we can reinvigorate that multilateral institution, because we face some alternatives. We can go the way of just bilateral agreements, free trade agreements. We can go the way of a GATT, some sort of exclusive club, say ten GATT members. We can go the way of what is called the GATT of the like-minded countries that are willing to undertake greater obligations in return for greater benefits.

You can do it right and have both the multilateral approach going full force and improved by what is done bilaterally or regionally among countries who are willing to push the system as far as possible. That is what I think we should be aiming for coming out of the U.S.-Canada FTA and that is what I think most countries, if they think about it, should be looking forward to in the years ahead.

