

LAST WORD

Arguments for a Canadian-American-Mexican Trade Pact

The United States of America and Los Estados Unidos de Mexico are finally about to embark on formal negotiations aimed at some form of free trade between the two countries. Some Canadians seem surprised that the U.S. might offer access to its market to any country other than us. Some even appear fearful of competition with Mexico for American markets. Overall, the concept of a U.S.-Mexico Trade Pact (UMTP) or a trilateral North American Free Trade Area (NAFTA) tends to be viewed with considerable apprehension.

Nevertheless, International Trade Minister John Crosbie, after a meeting in Toronto with U.S. Trade Representative Carla Hills, said he had told her that Ottawa "would want . . . to have Canada participate" in U.S.-Mexico discussions "if Canada felt it was in their best interest." He reaffirmed Canada's interest a short while later after Washington announced that the talks were on, but was disinclined to commit to Canadian participation until details had been announced. "Then we will be able to determine whether to observe them carefully or to take some other role," Mr. Crosbie said.

While the short-run fallout from a UMTP undoubtedly will include some trade losses for Canada, there is no shortage of evidence to indicate that Canada ultimately should join in a continental NAFTA. First, there is growing income in Mexico, which inevitably will result in growing demand for imports from other countries; advantages will accrue to those countries which have preferential access to the Mexican market. Second, a NAFTA makes sense from a Canadian perspective for purely defensive reasons: being outside a UMTP brings costs but no benefits. Third, the longer-term restructuring which will take place following a UMTP should involve Canada if longer-term benefits are to accrue. Finally, a freer trade zone in North America is plainly a worthy goal, especially given established trade blocs in Europe and emergent ones in the Pacific Rim.

Canada-Mexico direct trade at this point in our relations is comparatively small, \$2.3 billion with a \$1.1-billion surplus in favour of Mexico. Canadian exports to Mexico are dominated by manufactured goods (40%) and canola and meat products (25%). Imports from Mexico, meanwhile, are 75% manufactured goods. Some 82% of these direct Mexican exports to Canada already enter duty-free under various preferential tariffs. An unknown quantity of Mexican commodities also enter as component of U.S. goods that meet the rules of origin set out in the Canada-U.S. Free Trade Agreement.

Current Trade Flow Only Hints at the Potential

However, a small volume of trade is no reason to ignore the benefits of freer trade. The present flow of direct trade between Mexico and Canada is not a good indicator of what the situation would be if the two economies were more interconnected and the business communities in each knew that the other market existed. Mexico is poised for large increases in sustainable growth — with corresponding increases in imports.

Canadian exports to the U.S. are seven times as great as those to Mexico. While superficial examination of trade data indicates some overlap or competition between Canadian and Mexican firms in the U.S. market, in many cases the two countries export different products or to different regions of the U.S. Mexico is becoming an increasingly vibrant competitor with Canada and with other nations in U.S. markets, with or without a UMTP.

We are not debating at an academic level the benefits and costs of a NAFTA. The U.S. and Mexico are destined to forge closer ties than those they already have, so the only issue for Canada is to join or stay out. The latter option yields only potential losses. If Mexico and the U.S. sign a bilateral free trade agreement, the present impetus to the "silent integration" between the Mexican and American economies will gain strength. If we are not a party to such an agreement, we will have potential costs, such as some trade diversion in the U.S. market, but no potential benefits.

These potential benefits could be very large. Mexico has a population of 85 million and a substantial need for the kinds of products and services in which Canada has globally-acknowledged expertise: highways, telecommunications systems, electricity plants and agricultural development in addition to the production of tradeable goods and services. A UMTP does not shut Canadians out of the Mexican market, but it would provide a much greater incentive for American firms to invest and market in Mexico.

A UMTP will put U.S. firms at an advantage in Mexican markets. Canadian multinational corporations operating in the U.S. will enjoy this improved access. Canadian firms not operating in the U.S. or Mexican markets may lose the opportunity to share in Mexican growth.

In the longer term, as physical plants age, the locations of industrial production in North America will alter. There is no doubt that a UMTP or a NAFTA will impact Canadian industry in the long term. But impacts still will occur if we stay away from any connection with Mexico. As compared to the alternative — the U.S. having separate bipartite agreements with its northern and southern neighbours — there are likely benefits to Canada, the country with the smallest population, being part of a broader tripartite agreement.

Competitors come and go. We cannot grow and adapt as a nation by fearing to compete. Competition hones our skills, making us better. Trade improves our well-being. Mexico represents an opportunity. We cannot waste it by ignoring the possibility of forming a free trade zone that encompasses North America.

The opportunity is *now* and requires tripartite talks on the future of trade relations in what could be a single market of 350 million people, the size of the European Community. These talks must ensure, at a minimum, that a U.S.-Mexico agreement ultimately can be harmonized with the Canada-U.S. FTA to form a new continental trade bloc.

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