

On this continent, trilateral free trade negotiations beckon. On February 5, Prime Minister Mulroney and Presidents Bush and Salinas announced their intention to pursue those negotiations. A market of 350 million people involving \$6 trillion of output is at stake. That market would be larger than any other, including the European Community.

In Canada, the Free Trade Agreement remains controversial. We are in the midst of a recession. Every job loss, every jolt of economic change is blamed on free trade. Opening another round of free trade talks is not politically attractive but it is vital for long-term economic growth.

*First*, North American countries which can compete with each other will be countries which can compete with the world. *Second*, our three countries possess complementary advantages and assets. *Third*, Canada seeks to sustain and expand the benefits of the Canada-U.S. FTA. We do not seek to re-open that agreement. A trilateral agreement will maintain and enhance Canada's attractiveness as a host for investment by offering access to all of North America. *Fourth*, the United States is the most important trading partner for both Canada and Mexico. Mexico is Canada's most important trading partner in Latin America. And Mexico, after Canada and Japan, is the United States' most important trading partner in the world. *Fifth*, Mexico is open for business as never before. The reforms initiated by President Salinas have been described by the President of the World Bank as "... one of the most ambitious, courageous and determined programs of economic reform and institutional change recently undertaken in any country." Mexico has become a market in fact, not in theory.

The logic of trilateral free trade is clear. But already the critics are gathering. Those who believe prosperity can be preserved behind walls are pouncing on the proposal. Those who fear competition, who believe prosperity is obtainable without being earned -- the same coalition of naysayers we faced in Canada when we began the free trade talks with the U.S. will now face the United States on this issue.

We need to answer decisively the arguments already emerging. One argument relates to Mexico's low labour rates. It is argued that this will syphon off jobs from our two countries, leaving them the winner and us the losers. Labour rates constitute only a small element of competitiveness. Far more important are a nation's infrastructure, managerial capabilities, product quality, productivity growth and R&D. If labour rates alone determined competitiveness, why do Canada, Japan and Germany rank among the top five trading nations in the world? And if countries buy only from low-wage economies, why do over 85 per