

# Canada and the FTAA: The hemispheric bloc temptation

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*THE FREE TRADE AREA OF THE AMERICAS (FTAA) INITIATIVE MAY HAVE MADE SENSE IN THE EARLY 1990S, BEFORE IT WAS CLEAR THERE WOULD BE A WTO. BUT IT OFFERS ONLY MINOR ECONOMIC BENEFITS FOR CANADA; SUPPORT FOR IT IS LESS THAN ENTHUSIASTIC IN THE UNITED STATES, BRAZIL, AND MEXICO AND EVEN IN THE HEMISPHERE'S CORPORATE SECTORS; IT MAY WELL INCREASE INTER-BLOC TRADE TENSIONS THAT WOULD RESULT IN EVEN FURTHER CANADIAN DEPENDENCE ON THE US MARKET, AND IT PRESENTS YET ANOTHER SIGNIFICANT DEMAND ON OUR ALREADY-STRESSED TRADE NEGOTIATORS. SO WHY ARE WE SUCH GUNG-HO SUPPORTERS OF IT?*

*L'INSTAURATION D'UNE ZONE DE LIBRE-ÉCHANGE DES AMÉRIQUES POUVAIT AVOIR DU SENS AU DÉBUT DES ANNÉES 1990, AVANT QU'ON NE SACHE AVEC CERTITUDE QUE L'ORGANISATION MONDIALE DU COMMERCE (OMC) SERAIT CRÉÉE. MAIS ELLE NE PRÉSENTE POUR LE CANADA QUE DE MINCES AVANTAGES ÉCONOMIQUES. AUX ÉTATS-UNIS, AU BRÉSIL, AU MEXIQUE ET MÊME DANS LES MILIEUX D'AFFAIRES DE L'HÉMISPHERE, CE PROJET NE RECUEILLE QU'UN APPUI MITIGÉ. SA RÉALISATION RISQUE D'ACCROÎTRE LES TENSIONS COMMERCIALES ENTRE LES BLOCS ÉCONOMIQUES ET, PAR LÀ, D'AUGMENTER ENCORE LA DÉPENDANCE DU CANADA ENVERS LE MARCHÉ ÉTATS-UNIEN. SANS COMPTER QUE CE LIBRE-ÉCHANGE ALOURDIT LA TÂCHE, DÉJÀ DIFFICILE, DE NOS NÉGOCIATEURS COMMERCIAUX ALORS, POURQUOI METTONS-NOUS TANT D'ARDEUR À LE DÉFENDRE ?*

With the failure of the Seattle meeting of the World Trade Organization (WTO) to effectively launch a new round of global trade negotiations, Canada might be tempted to see a Western Hemispheric bloc as a good substitute and a sound refuge in the face of rising global protectionism. In fact, Canada has been the principal promoter of the "FTAA," the Free Trade Area of the Americas, which the governments of the Americas are committed to establishing by 2005. And we have been the single most important driving force behind the process as it has evolved over the last five years, since the process was initiated at the Miami Summit of the Chiefs of States of the Americas in 1994. We have also been a leader in the formal negotiations on the agreement that began 18 months ago. Indeed, until recently we chaired them.

This paper examines the many rationales that have been proposed for the FTAA, as well as its prospects, and its potential implications for Canada. In brief, we argue that: The hemisphere is not a real option for Canada's trade strategy; an FTAA is not likely to serve the region well in the short or medium term, or to bring Canada closer to key hemisphere players; and finally, focused bilateral efforts rather than regional

negotiations would better serve Canadian interests. In the current context, a "retreat" into the hemisphere risks increasing our trade dependence on the US, which at the moment is this country's biggest strategic concern. In our view, there is simply no substitute to muddling through at the global level.

According to Statistics Canada, in 1998 Canada exported \$5.8 billion dollars worth of products to Latin America and the Caribbean (LAC), compared to \$4.1 billion in 1994, for an average annual increase of 9 per cent. Imports from the region are more substantial, growing from \$8 billion to \$13 billion during the same period, an even more impressive 13 per cent per year. In relative terms, however, these numbers remain very small. Canada is a massive trader, and both its total exports and imports grew at a similar pace over the same period. As a result, the relative weight of LAC in Canada's trade has barely changed since NAFTA was signed and the FTAA process was launched. Exports to the region are stalled at below two per cent of total exports, while the region's share of our overall imports is barely increasing.

This sobering picture is not quite accurate, however, since the numbers quoted do not include trade in services.