

Statement

Minister for
International
Trade



Déclaration

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STATEMENT TO THE HOUSE OF COMMONS'
STANDING COMMITTEE ON EXTERNAL AFFAIRS AND
INTERNATIONAL TRADE

BY THE
HONOURABLE JOHN CROSBIE,
MINISTER FOR INTERNATIONAL TRADE

REGARDING
CANADA'S PARTICIPATION IN NORTH AMERICAN FREE
TRADE TALKS WITH MEXICO AND THE UNITED STATES

OTTAWA

OCTOBER 9, 1990.

1. INTRODUCTION

As I advised the House of Commons on Monday, September 24th, Canada has decided to participate in trilateral free trade discussions with Mexico and the United States.

Prime Minister Mulroney has written letters to President Salinas and President Bush stating Canada's interest in participating in negotiations with Mexico and the United States on a North American free trade agreement which would benefit all three countries.

In recent discussions with Mexico and the United States, we all agreed that Canada should participate in consultations designed to establish the basis for subsequent negotiations on a free trade arrangement linking Canada, the United States and Mexico.

Over the next several months, we will therefore be examining the scope, elements and procedures that would form the basis for subsequent negotiations.

I am confident these preliminary discussions will be productive and demonstrate that a mutually advantageous agreement can be concluded.

We do not expect formal negotiations to begin until sometime later next spring.

Last summer we conducted preliminary studies and consultations and we concluded that it was in the Canadian interest to participate from the outset in the Mexican trade initiative.

The alternative would be not to participate and to lose the opportunity to have a direct influence and role in negotiations which could affect our trade and investment interests in the vital North American market.

I will be tabling our preliminary studies at the end of my remarks today.

Before discussing the rationale and objectives we will be pursuing in these trilateral trade talks, I would like to bring you up to date regarding recent events surrounding our decision to participate.

2. CHRONOLOGY OF EVENTS LEADING TO THE DECISION

During the past year, Canada and Mexico have made significant progress in developing our trade relations.

In January, Canada hosted the 7th Canada/Mexico Joint Ministerial Committee to discuss ways to enhance our trading relationship.

During Prime Minister Mulroney's visit to Mexico last March, our relationship was further enhanced by concluding important bilateral agreements in several areas, including customs administration, agriculture and livestock, forestry, environment, tourism and taxation.

In April, I led a trade mission to Mexico to discuss Canada-Mexico trade and recent developments in the Uruguay Round of multilateral trade negotiations which are presently proceeding in Geneva under the auspices of the General Agreement on Tariffs and Trade ("GATT").

On June 12th, Mexican Trade Minister Serra and I met in Montreal to discuss our growing trading relationship and to consult regarding President Salinas' June 10th announcement in Washington that President Bush had agreed to the Mexican request to explore a comprehensive trade agreement between the United States and Mexico.

To prepare for these negotiations, President Salinas directed Minister Serra to work with his American counterpart, United States Trade Representative Carla Hills, to:

undertake the consultations and preparatory work needed to initiate such negotiations, in accordance with each country's internal procedures, and to report back to the two Presidents as soon as practicable, but in any event before their next meeting in December.

The fact that Minister Serra travelled to Montreal to meet with me immediately after President Salinas' official visit to Washington illustrates the high degree of consultation, courtesy and trust that characterizes our relationship.

Within a week of my June meeting with Minister Serra, I met with our International Trade Advisory Committee and I appeared before your Committee to discuss the Mexican trade initiative on June 18th.

At that time I advised that Canada had not decided whether we would be involved in the Mexican trade initiative and that we would use the summer months to consult with the provinces, business and labour representatives, and conduct studies regarding Canada's options. I also indicated that we should make a decision by September regarding our participation in these trade talks.

During the summer, it became clear that the Mexicans did not intend to wait for the December presidential meetings before taking the next step.

As a result, at the August 8 meeting of the United States-Mexico Ministerial Commission in Washington, it was announced that President Bush proposed to seek negotiating authority from Congress in September and it was expected that negotiations could begin later next spring.

Last month, we began informally exploring with Mexico and the United States our participation in these trilateral talks. It has now been agreed that there should be consultations involving our three countries to establish the basis for subsequent negotiations on a free trade arrangement linking Canada, the United States and Mexico.

Over the next several months, we will therefore be examining the scope, elements and procedures that would form the basis for subsequent negotiations.

We will also continue to consult to ensure that we are fully prepared when the negotiations begin sometime later next year. We look forward to receiving your views in the coming weeks.

3. THE RATIONALE

The question of our participation in these talks has been extensively debated and written about in Canada since the prospect of a bilateral United States-Mexico free trade agreement first emerged last spring.

We have listened carefully to the views of the provinces, business, labour as well as distinguished academics and journalists. Most were persuaded that Canada should participate from the outset in the free trade talks which have resulted from Mexico's historical trade initiative.

The principal reasons for joining in these talks are twofold:

1. Mexico's recent reforms in its economic, trade and investment policies are creating trade opportunities for Canadian exporters in the growing Mexican market.
2. Given the vital importance of the North American market to Canada, we must participate in these talks from the outset to enhance our ability to compete effectively and attract investment in this emerging market of over 350 million.

(a) Recent Mexican Reforms Are Creating Trade Opportunities For Canadian Exporters

During Mexican Trade Minister Serra's visit to Canada last month, we reaffirmed that Canada welcomes Mexico's trade initiative and their commitment to growth and the improvement of their living standards through open and outward looking economic policies, particularly in the areas of trade and investment.

In recent years, the Mexican Government has greatly modified its import regulations and has significantly reduced tariff and other barriers to trade, particularly since 1986 when Mexico joined the General Agreement on Tariffs and Trade ("GATT").

In the last several years, the Mexican government has initiated several comprehensive measures to strengthen their economy. Their economic policies have already brought annual inflation rates down from over 150% to a more manageable 20%.

In the recently released annual report of the International Monetary Fund, Mexico was commended for making real progress in dealing responsibly with its debt.

These and other reforms have created significant opportunities for Canadian exporters and investors, and have set the stage for expanded Canada-Mexico trade as we approach the 21st century.

The Investment Canada study which I will table in a few moments summed up the enormous potential of the Mexican market in the following terms:

Mexico has the potential to become an important export market for Canada. By the end of the century its population will be close to 100 million. Sweeping economic reforms, notably liberalization of its trade and investment regulations, are propelling Mexico towards the remarkable achievements already experienced by several countries in Southeast Asia ...

The growth of Mexico is an opportunity for Canada, not a threat.

Mexico is already Canada's most important trading partner in Latin America. Trade between our two countries exceeded 2 billion dollars last year, a 25% increase over 1988. We expect that two-way trade will reach five billion dollars in the 1990s.

In the past, Canada's opportunities in Mexico were often limited by protectionist trade barriers. Recently, things have changed, especially since 1986 when Mexico joined the GATT.

We believe the growing Mexican economy offers Canadian exporters exciting new prospects, particularly in the areas of telecommunications, transportation, and environmental equipment.

Take, for example, telecommunications. Up until recently, Canadian telecommunication companies could not sell their products in Mexico due to restrictive government procurement practices. However, recent reforms have rapidly created new opportunities for Canadian exporters.

Mexico has less than 6 million telephone lines serving its population of over 80 million people. To develop their economy, the Mexican government recognizes that they must upgrade their communications system.

In the next five years, Mexico will attempt to double the number of telephone lines with a modernization program that could cost over

12 billion dollars. Bell Canada has already submitted a bid to be part of this ambitious program.

Likewise, Canada's Northern Telecom has secured several cellular telephone equipment contracts that have caused Canadian exports of telephone equipment to increase from 5 million dollars to 25 million dollars in the first six months of this year alone.

In addition to our shared commitment to develop our trading relationship, Mexico and Canada share strong geographic and economic links to the contiguous United States market.

Like Canada, Mexico's trade with the United States is essential to its economic prosperity. Mexico's two-way trade with the United States is valued at about 50 billion dollars, whereas Canada's two-way trade with the United States is about 200 billion dollars.

Given the enormous amount of trade between our three countries, it makes sense for Canada, the United States and Mexico to sit down together and pursue trilateral trade discussions to create a North American free trade market of over 350 million consumers.

By being part of a trilateral free trade discussions from the outset, we can ensure that Canadian exporters will prosper on an equal footing in the emerging North American market so that we can continue to maintain high quality jobs here in Canada.

(b) Canada must participate in these talks from the outset to enhance our ability to compete effectively and attract investment in the emerging North American market

By participating in the Mexico trade talks from the outset and developing a North American free trade market of over 350 million people, Canada will become a more attractive place in which to invest and create jobs for Canadians.

We are participating in these talks to build on the opportunities we created with the FTA.

One consideration for investors is the size of the market. The market sizes in the North American economy are roughly as follows:

Canada	over 25 million
United States	over 245 million
Mexico	over 80 million
Total Market	over 350 million

If Canada chose to remain outside of the emerging North American free trade market, the United States would be the only country with free trade access to the entire North American market of over 350 million people.

If a firm invested in Mexico, it would have free trade access to a market of over 325 million, whereas if a firm invested in Canada, it would only have free trade access to a market of about 270 million.

It is therefore clear that, by being part of the emerging North American free trade market, Canada will have more to offer to investors than if we were confined to a smaller market.

In addition to helping to attract new investment and create jobs here in Canada, access to the immense North American free trade market will encourage existing investment to remain in Canada.

Demography, geography and history have taught Canadians that to prosper, we must have access to larger markets.

The experience of the Depression forcefully demonstrated that Canadians will not prosper if we are confined to a small market. This is why Canada is a trading nation that remains at the forefront of trade liberalization throughout the world.

4. CANADA'S TRADE PRIORITIES

The Mexico trade talks complement our overall trade strategy. The GATT remains the cornerstone of Canada's trade strategy. We are

strongly committed to the GATT multilateral trading order and we are continuing to work towards a successful completion of the Uruguay Round of negotiations later this year.

For many years, trade liberalization has been a key element of Canada's economic success. We have benefited from our membership in the GATT, and have played an active role in every round of multilateral trade negotiations.

Later this week, I will be hosting a quadrilateral trade ministers meeting in St. John's with my counterparts from Japan, the United States, and the European community. The Uruguay Round will figure high on our agenda.

Again, I would like to stress that formal negotiations with Mexico and the United States are not scheduled to begin until well after the conclusion of the Uruguay Round.

The Mexico trade talks complement our many other initiatives designed to position Canada as a competitive force in an increasingly open and interdependent global economy, including our tax reform policies, our employment retraining programs, and our Going Global trade development strategy.

5. CONTINUING CONSULTATION

As I mentioned earlier, during the last several months we have conducted preliminary studies and have consulted widely.

The question of Canada's participation in these talks has been extensively debated and written about in Canada since the prospect of a bilateral United States-Mexico free trade agreement first emerged last spring. Almost all serious analysis argues strongly for Canada's participation.

For example, the day following my announcement in the House of Commons, a Financial Post editorial stated:

"It has been said that the foreign policy of states lies in their geography. One overwhelming reason for proceeding with a North American Free Trade Area is proximity. What more obvious place to increase trade flow than on a continent with

relatively low transportation costs and a communications network of rail, road, air and telecommunications...

Our three countries contain 355 million people, more than the European Community's 324 million. Our combined gross national products total \$US 5.5 trillion, considerably larger than the Community's \$US 4 trillion. In economic terms alone, the potential is enormous...

I would now like to table our preliminary studies and provide you with some of the extensive research that was done in the private sector regarding Canada's decision to participate in these North American free trade talks.

However, before concluding my remarks, I should point out again that, up until recently, Mexico had a relatively closed economy that made it difficult for Canadian exporters to increase their sales. This was particularly true in areas such as telecommunications and public transportation where restrictive government procurement practices discouraged international trade.

Any study that is based on past experience therefore fails to capture the enormous potential of the Mexican market. Likewise, static econometric analysis does not lend itself to measuring the rapidly emerging opportunities in this increasingly dynamic market.

To manage change, we must anticipate it and shape it. We therefore need trade policies that are anticipatory and forward-looking. Conventional wisdom that is rooted in the past will not serve Canada's interests as we approach the 21st century.

To position ourselves for the future, we must participate in the Mexican trade initiative to build a North American free trade market of over 350 million people.

We will continue to consult widely and openly in the coming months to ensure that Canada is well prepared for next year's negotiations.

We therefore welcome your public hearings, and we look forward to receiving your recommendations.

Thank you.