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## **POLICY STAFF PAPER**

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### **CANADA IN THE AMERICAS: NEW OPPORTUNITIES AND CHALLENGES**

by

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**(April 1994)**

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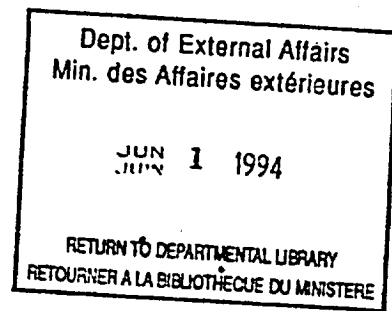
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**CANADA IN THE AMERICAS:  
NEW OPPORTUNITIES AND CHALLENGES**

	Executive Summary	2
	Résumé	3
1.	Background	4
2.	1989 Policy Review and Follow-Up	7
3.	The Americas in Transformation	9
	• Economic Good Governance	9
	• Political Good Governance	12
4.	Observations and Proposals	14
	• Creating Prosperity on a Sustainable Basis	14
	• Political Good Governance	19
	• Building Bridges	22



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## EXECUTIVE SUMMARY

Canada's interest in Latin America has in the past generally been one of benign neglect. With the entry into force of the NAFTA and the economic and political structural reforms taking hold in the region, this will no longer do. No rational calculation of Canadian national interests can place Latin America in the nether world. Canada can make a difference in the region. Our close ties with the U.S. will allow us to play a bridging role with Brazil, Mexico, Venezuela and others. Historic links with the Commonwealth Caribbean can ensure that interests of these micro-economies are taken fully into account to the degree that they themselves pull together more effectively. The end of the Cold War and the revitalization of multilateralism (including Canada's entry into the OAS) enhance our ability to play a helpful role with regard to regional issues such as human rights, democratic institution building, debt, curbing the drug trade and improving the environment. At the same time, we have increasingly important commercial and economic interests to pursue with several of the countries in the region.

This Paper examines how Latin American and Caribbean countries have begun a deep transformation and how this process of change heightens the importance of the region for Canada and Canadian foreign policy. The heart of the Paper will be found in Section 4, where several proposals are made for strengthening our relations with the region, on a mutually beneficial basis, under three main headings: creating prosperity on a sustainable basis (trade promotion, NAFTA accessions, investment support, development assistance and environmental cooperation); political good governance (technical expertise in the area of human rights, elections, regulatory reform and the role of the military; expanded membership in and renewal of the Nuclear Non-Proliferation Treaty; the evolution of Cuba); and building bridges (establishing a Foundation for the Americas; institution building at the OAS; a more active role for educational institutions and policy; and a program of Ministerial visits). Few of these proposals would require additional funding, although some would necessitate adjustments between programs and regions. All would better position Canada to assert its place as a nation of the Americas.

## RÉSUMÉ

Le Canada ne s'était jamais activement intéressé à l'Amérique latine. Mais cette aimable indifférence n'a plus sa place depuis l'entrée en vigueur de l'ALENA et la réforme des structures économiques et politiques de la région. Aucun calcul rationnel des intérêts nationaux du Canada ne peut nous amener à rester indifférents vis-à-vis l'Amérique latine. Le Canada peut faire la différence dans la région. Nos liens solides avec les États-Unis nous permettront d'établir des ponts avec le Brésil, le Mexique, le Venezuela et d'autres pays de la région. Nos relations historiques avec les Antilles du Commonwealth peuvent garantir que les intérêts de ces micro-économies seront pleinement pris en compte si les nations antillaises elles-mêmes développent une collaboration plus efficace entre elles. La fin de la Guerre froide et la redynamisation du multilatéralisme (comme l'adhésion du Canada à l'OEA) renforcent notre capacité de jouer un rôle utile dans des dossiers régionaux comme la protection des droits de la personne, l'édification d'institutions démocratiques, la dette, la lutte contre le trafic des drogues et l'assainissement de l'environnement. Nous avons par ailleurs des intérêts commerciaux et économiques de plus en plus importants à poursuivre avec plusieurs pays de la région.

Ce document examine comment les pays de l'Amérique latine et des Antilles ont engagé une profonde transformation et comment ce processus de changement souligne l'importance de la région pour le Canada et pour la politique étrangère canadienne. Le coeur de l'argumentation se trouve à la section 4, où l'auteur avance plusieurs propositions pour renforcer, sur une base mutuellement avantageuse, nos relations avec la région dans les trois grands domaines suivants : la création d'une prospérité durable (promotion du commerce, accessions à l'ALENA, soutien de l'investissement, aide au développement et coopération environnementale); la bonne administration politique (compétences techniques touchant les droits de la personne, les élections, la réforme de la réglementation et le rôle des militaires, élargissement et renouvellement du Traité sur la non-prolifération des armes nucléaires, et évolution du régime cubain); et l'établissement de ponts (création d'une Fondation pour les Amériques, consolidation et stimulation de l'OEA, dynamisation des institutions d'enseignement et des politiques d'éducation, et mise en place d'un programme de visites ministérielles). La plupart de ces propositions ne nécessiteraient aucun financement additionnel; certaines exigeraient toutefois des ajustements à la répartition des programmes entre les régions. Mais toutes les propositions permettraient au Canada de renforcer son statut de nation des Amériques.

## CANADA IN THE AMERICAS: NEW OPPORTUNITIES AND CHALLENGES

### 1. BACKGROUND

The stunning changes that have taken place in Eastern Europe and the former Soviet Union in the past five years have to some extent overshadowed equally important developments in our own hemisphere. The process of economic and political adjustment in Latin America and the Caribbean has occurred with less fanfare and violence, but the impact has been every bit as profound and the results look to be lasting. In less than ten years, the domination of military regimes over the region's political life has been replaced by an almost universal resurgence of democracy. Centralized planning and mercantilism have fallen into well deserved disrepute. Most nations in the region are focusing on getting their domestic economic fundamentals right, while encouraging trade liberalization and export-led growth. The most progressive administrations have recognized the reality of international economic integration and have acted to position their economies to compete for trade in goods and services and capture investment. While human rights abuses still occur, the region's overall record has improved and economic growth and the consolidation of democratic institutions should produce further gains.

How does Canada fit into the much-changed Americas? What means are available to ensure that Latin America and the Caribbean assume a more prominent place in Canada's foreign policy?

A study of Canadian policy toward Latin America and the Caribbean evokes the image of the fickle lover: the embrace has all too often been followed by long periods of neglect. This is not to suggest that we have ever been utterly alien to one another. Quite the contrary. Trade and the Catholic faith established early links well before governments formalized diplomatic relations. In the early part of this century, Canadian entrepreneurs were active in the development of railways and electrical power generation in several Latin American countries and successor companies and joint ventures continue to flourish in a number of locations. Canadian financial institutions opened modest, but profitable offices throughout the region, including in the Caribbean. Canada's trade commissioner service has been present in the region for almost one hundred years. Deep family ties link Canada and the Commonwealth Caribbean and more recent immigration and the creation of La Francophonie have heightened awareness of the importance of the francophone presence within the region.

The trade and investment dimensions remain central to our interests in the region. The stock of Canadian direct foreign investment (FDI) in Latin America is estimated at almost \$2.5 billion, with the current market value of assets controlled by this stake considerably higher.<sup>1</sup> The Latin America and Caribbean region presently accounts for two percent of our merchandise exports, and most of that is with only a half dozen countries. It would represent a significant, but realistic goal to double that share by the end of the decade (see Chart 1). In this regard, recent trade, even in comparison with other regions, is still quite important. For example, our 1987-92 merchandise exports to the six Andean countries totalled \$5.2 billion, compared to \$8.3 billion to the ASEAN regional grouping, even though the latter has three times the population and the Andean nations were still adjusting, with varying degrees of success, to the regional debt crisis. For its part, tourism between Canada and Latin America and the Caribbean has grown dramatically since the 1970s, mostly although by no means entirely southward.

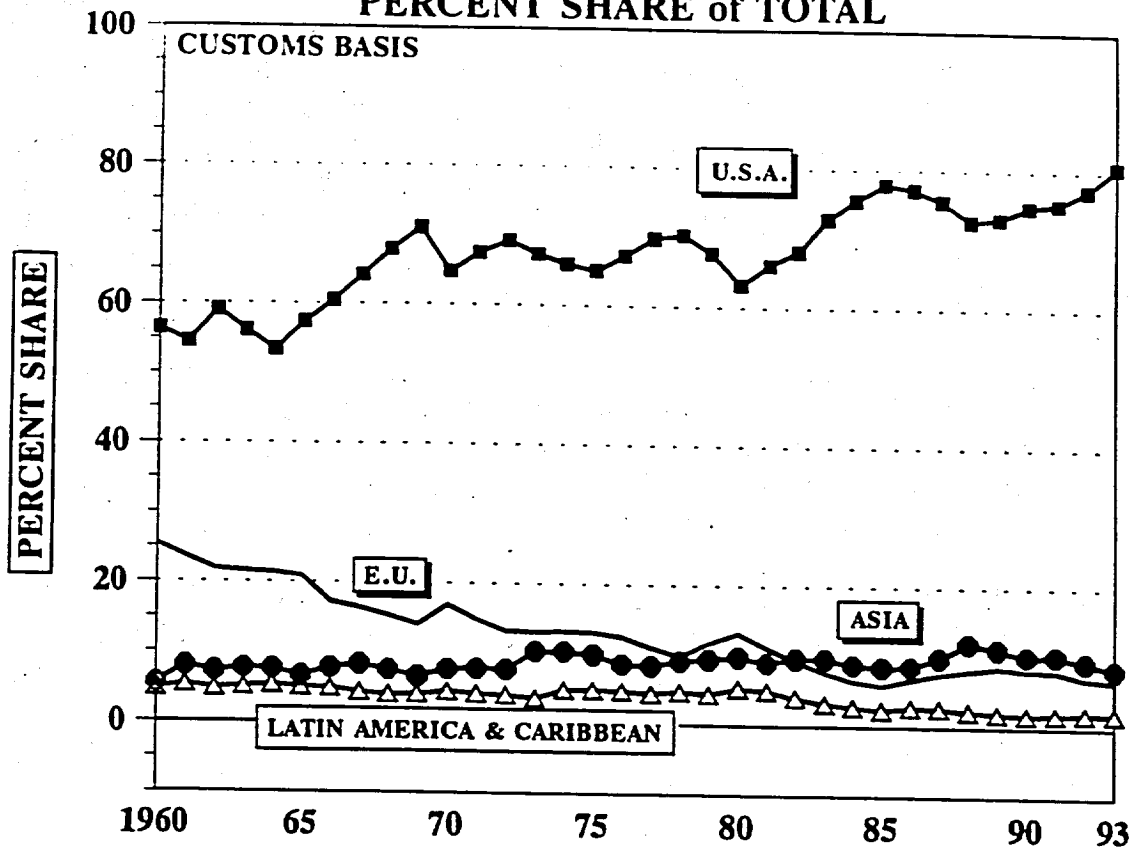
Other important links have developed. Canadian missionaries (both Catholic and from various Protestant denominations) have long ministered to the faith and encouraged grass-roots development in the region, while gradually emerging as an influential voice lobbying in Canada for greater human rights and their own vision of economic development for Latin America (e.g., the Inter-Church Committee on Human Rights in Latin America). More recently, there has developed a heightened awareness among the indigenous populations of the Americas of shared concerns and interests. 1993 was the U.N. Year of Indigenous Peoples. Further contacts and possible cooperation between Canada's first nations and their counterparts elsewhere in the hemisphere are already adding a new and unique dimension to Canada's ties to Latin America. This aspect of Canada's relations with the Americas requires increasing attention.

There are other direct human links. About 250,000 people emigrated to Canada from Latin America and the Commonwealth Caribbean during the past 10 years. Of these, more than 100,000 were Latin Americans. This community in Canada was unidentifiable 20 years ago. It now numbers over 185,000, concentrated especially in Toronto and Montreal. Approximately half a million residents in Canada can trace their origins to the Commonwealth Caribbean. Moreover, of 250,000 new

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<sup>1</sup> For example, in Chile, where several hundred million dollars in Canadian funds invested particularly in the mining sector have translated into control of companies with an estimated value of Cdn \$4 billion. Note that the book value of the Canadian funds actually invested rather than current market value is typically used to determine the stock of FDI. For a country with a long history of Canadian investment (e.g., Brazil), this standard approach may significantly understate the stock of FDI. For the formal recording of Canadian FDI, see Statistics Canada, Catalogue No. 67-202 (1992), Table 9, pp. 67-72.

## CHART 1 CANADIAN MERCHANDISE EXPORTS PERCENT SHARE of TOTAL



immigrants arriving in Canada in 1992 (including refugee claimants), more than 20% (38,000) were from Latin America and the Caribbean. On the other hand, more than 30,000 Canadians are registered at Canadian posts in the region as long-term residents.

Internationally, Canada has come to work more closely with countries from the region. Canada forms part of, and must expend lobbying efforts in, the Americas group for such organizations as the International Telecommunications Union, the International Labour Organization and Interpol. Colombia, Brazil, Argentina and Uruguay were close partners of Canada in the Cairns Group engaged in the recently concluded MTN agricultural negotiations. The Amazonian Basin countries, particularly Brazil, and Mexico are major players in the increasingly important international negotiations on global environmental issues.



Yet, Canadian foreign policy has never sustained its focus on Latin America and the Caribbean. Several reasons explain this result, including Canada's inevitable preoccupation with its relations with the United States and our European links. Moreover, over the past decade and a half, Asia has initiated an economic revolution focused on exports and investment that has opened commercial opportunities for Canada that we were right to seize. And, of course, the disastrous economic record of the Latin American countries themselves only heightened the contrast with Asia Pacific, to the detriment of sustained Canadian interest. The intellectual birthplace of import substitution development theory in the 1950s, Latin America stayed this course beyond all reason, compounding its difficulties with a reckless splurge of indebtedness (aided and abetted, it should be said, by the international banking community and official credit agencies).

Political demagoguery, in part fed by economic muddle-headedness and the regional spin-offs of the Cold War preoccupations of the U.S., led to military interventions and the eclipse of democratic institutions in many countries beginning in the mid 1960s, with Central American turmoil becoming perhaps the dirtiest manifestation of these cross-currents in the 1980s.

The cumulative impact of these crises, as well as greener fields elsewhere, forced a re-evaluation of our hemispheric relationships following a brief upturn in interest in the 1970s, and led to a lowering of our expectations for the region. Nonetheless, by the late 1980s new trends were establishing themselves. Civilian government had reappeared in most countries and several governments began applying market-based economic and trade policies with greater consistency. It appeared that much of the region had rediscovered solid economic and political fundamentals and had begun to apply them. In recognition of these emerging improvements, Canadian foreign policy took stock. The result was the 1989 policy review.

## **2. 1989 POLICY REVIEW AND FOLLOW-UP**

The federal government's 1989 policy review, and a subsequent 1990 update on the implementation of the review, led to a series of recommendations designed to give a higher priority to Latin America and the Caribbean. The results included the following:

- full membership in the OAS (implemented in 1989);
- upgrading diplomatic representation in Guatemala to the rank of Ambassador (implemented in 1990);
- opening satellite offices in the Dominican Republic and Ecuador (opened in 1989 and 1990);
- reconsidering the share of Official Development Assistance (ODA) available for bilateral and other programmes (the region's share of CIDA's bilateral allocations has risen from 16% to 18%);
- the establishment of a Canada-Latin America Forum (FOCAL) under the umbrella of the North-South Institute (implemented in 1990, with funding of \$1 million over five years);
- the creation of a "Fund for Latin American Initiatives" to support people-to-people linkages in the promotion of democracy, government organization, human rights, etc. (implemented with funding of \$350,000); and
- the preparation of detailed market studies on Brazil and Mexico (completed).

Other recommendations that were not implemented for a variety of reasons, but which may remain valid include:

- building on membership in the Inter-American Development Bank by assessing the merits of joining the Inter-American Investment Corporation (a 2% share would cost US\$2-3 million);
- implementing a more pro-active approach to cooperation with Latin America with regard to drug and environmental issues;
- hosting an OAS summit in Canada; and
- increased ministerial visits to the region.

Of all the above initiatives, Canada's entry into the OAS as a full member has had the deepest impact on our relations with the region. The Latin American and Caribbean nations now view us as a full partner in light of Canada's active and

constructive approach across the full range of OAS activities. Through the OAS, Canada has been successful in having the U.S. adhere to multilateral diplomacy in its reaction to the crises in Haiti and Peru. Canada has advanced OAS thinking and practice with regard to making human rights and democratic development more central issues deserving an active approach.

### **3. THE AMERICAS IN TRANSFORMATION**

- **Economic Good Governance**

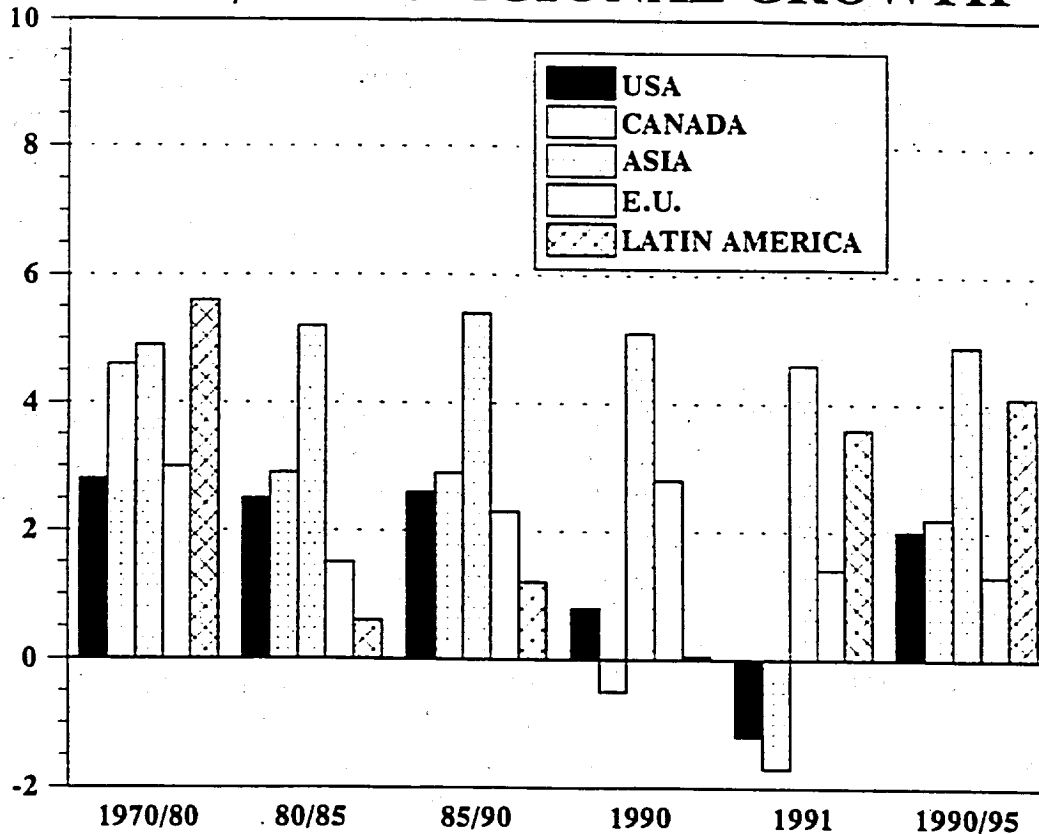
The trends identified in the late 1980s have deepened, although not equally in all countries. The allure of import substitution has lost its intellectual legitimacy in most business, government and academic circles, generally replaced by a commitment to market-based economic development and more open trade policies. Key parts of Latin America appear to have turned the corner on the lost decade.

The region has embarked on a period of sustained real growth. It is worth remembering that during the 1970s Latin America out-performed Asia, with average annual real GDP increasing by 5.6% compared to 4.9% respectively (energy-dependent Brazil led the pack at almost 9% growth). The 1980s witnessed the Asian economies outpacing Latin America by an impressive ratio of five to one. The clear consensus, however, is that this differential has narrowed considerably in the 1990s. DRI/McGraw-Hill, for example, estimates that compound annual growth in real GDP in 1990-95 will be 4.1% in Latin America, 4.9% in Asia and only 1.3% in Europe (see Chart 2). A recent Inter-American Development Bank study indicates the current economic reform process, if sustained, will lead to annual growth rates of 3.9% to 5.2% in the major South American economies during the rest of the decade. The WEFA Group also estimated last year that Latin American average annual growth would register 4.1% over the 1992-97 period. Looking further down the road to the second half of the 1990s, DRI places potential Latin American GDP growth rates (5.2% compound growth annually is forecast) at about twice those of North America and Europe, and modestly ahead of that anticipated for Asia as a whole.<sup>2</sup> The US \$1 trillion Latin American market is becoming more attractive as a result of better management in key regional economies.

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<sup>2</sup> Although both DRI and the WEFA Group suggest that Asia's newly industrialized economies could register annual increases in GDP on the order of 7%.

**CHART 2**  
**GDP / GNP REGIONAL GROWTH**



Source: DRI/McGraw-Hill World Markets Executive Overview (1993)

Governments that once saw nationalization and protectionism as the only politically correct way to go are opening state-run industries to the private sector. Several countries have significantly improved their intellectual property standards and enforcement, both to deflect the threat of U.S. trade sanctions, but also to strengthen the environment for foreign investment and research and development. Inflation and deficits are being curbed after the difficult, but necessary, pill of IMF-recommended disciplines. Import tariffs have been slashed, exchange rates freed and exports encouraged. Among the major economies, the reforms have taken hold most effectively in Mexico, Chile, Colombia, Argentina and perhaps Venezuela. In Brazil, the commitment is less clear, although some useful steps have been taken.

In general, there is a greater predisposition to accept formal international obligations to lock in domestic reforms. Most countries in the region have now joined the GATT (Mexico, Colombia, Venezuela and four Central American countries became contracting parties since the mid 1980s). The Latin Americans made a significant contribution to the Uruguay Round of multilateral trade negotiations, often in cooperation with Canada. There is an increasing commitment to extending the scope of liberalization through regional free trade agreements, including Mercosur, the G-3 negotiations covering Mexico, Venezuela and Colombia, bilateral liberalization between Colombia and Venezuela, and Mexico and Chile, efforts to reinvigorate the CARICOM and Central American Common Markets, and of course the NAFTA and the prospect of accession to NAFTA.

The NAFTA will, of course, provide Canada with unprecedented access to the steadily growing Mexican market on a preferential basis. It is comprehensive in scope and covers, *inter alia*, protection for investment and intellectual property rights, detailed dispute settlement mechanisms, the modernization of Mexican trade rules related to import surges, anti-dumping and subsidy/countervail procedures, the full opening of such areas as financial services (for both investment and cross-border sales), greater openness and discipline for many government procurement purchases, and (through the "side" agreements) greater international scrutiny of the enforcement of domestic environmental and labour standards.

The NAFTA locks in Mexican trade and economic reforms and extends them in certain important respects. Moreover, the NAFTA also contains the potential to promote reform of Mexico's political and social systems, although the link is neither linear nor automatic. Nevertheless, the NAFTA undermines top-down micro-management of the economy and opens the decision-making process to greater public scrutiny, whether the issue is the awarding of a contract for equipment by the national oil company, the new role for consumer groups in import surge disputes, or the right of a resident to seek an enquiry by a trilateral Secretariat into the environmental enforcement practices of his own government. The NAFTA, therefore, underpins economic and, less directly in terms of timing and causation, socio-political reform and links Canada more closely to this reform process in Mexico. Although the political will must be marshalled to translate increased wealth into equitable social benefits, economic reform does create the opportunity for positive social change.

Looking further down the road, the NAFTA's accession clause (the result of a Canadian proposal) foreshadows the extension of the Agreement and those on environmental and labour cooperation to other Latin American and Caribbean countries as these become comfortable with the level of obligation expected. Chile is clearly

the most likely candidate in the very near term. The accession process will inevitably reinforce Canada's hemispheric vocation.

One final word on economic good governance. Direct and portfolio investment flows to the five major markets of Argentina, Brazil, Chile, Mexico and Venezuela more than doubled in 1991 to \$36 billion. According to the Inter-American Development Bank, "in 1991 the long-awaited economic revival of Latin America began." Linked with the lowering in interest rates, the inflow of capital has "completely turned around the international transfer of resources in Latin America's favour." With regard to direct foreign investment flows, the Bank for International Settlements now estimates the annual inflow at US \$12-13 billion, twice the level of the 1980s. The turn-around has meant an improved economic and trade outlook, the broadening of the investor base, growth in equity markets and acceleration of privatisation. In time, real growth in personal income per capita and increases in employment should reinforce popular support for staying the new course.

- **Political Good Governance**

Impressive progress has been made in consolidating democratic institutions throughout the region. The tradition of democracy and respect for human rights has remained strong in the Commonwealth Caribbean - the foundation of continuing close and positive relations with Canada.

In Latin America, the political role of the armed forces has receded, in many cases dramatically and to a far greater extent than in many African and Asian countries. Brazil's constitutional regime proved remarkably resilient in the face of the severe pressures generated by the corruption-related impeachment proceedings against former President Collor. It shows every sign of being able to cope with an even bigger ongoing scandal involving several prominent members of the Brazilian Congress. Colombia's well-rooted democratic institutions have withstood major and repeated tests over the past two decades and were strengthened in the 1980s by the extension of direct elections to include governors and mayors. Venezuela has added direct elections for governors to its impressive record of democratic consolidation over the last thirty years. Moreover, the country's institutions withstood two coup attempts against the increasingly unpopular ex-President Perez, with his eventual removal from office being accomplished by Constitutional means. Chile has emerged from the Pinochet years with a vigorous democracy led by some of South America's most able and pragmatic politicians. A record of dark human rights abuses, economic mismanagement and incompetence (the 1982 Malvinas fiasco) dramatically reduced the self-confidence and role of Argentina's military, while the Menem government has shown the courage and competence to manage tough economic reforms even in the

face of some popular discontent. Several countries in Central America have also taken meaningful steps towards fuller democratization. Even the redoubtable Mexican political system is showing signs of change, as the gap between the need to reduce drastically the scope of top-down economic management and the continuing pervasiveness of the PRI's political power becomes increasingly awkward.

Inter-state relations in the region have greatly improved, part of the political fallout from greater emphasis on economic cooperation. El Salvador and Honduras have successfully resolved their border differences in the World Court. Occasional Venezuelan sabre rattling against Guyana over the Essequibo region no longer occurs. Chile and Argentina settled the Beagle Channel dispute. Guatemala has recognized Belize and has largely resolved its boundary differences with that country. Colombia and five Commonwealth Caribbean nations added their signatures to the Nuclear Non-Proliferation Treaty (NPT) after 1980. At present, Brazil, Argentina, Chile, Cuba and Guyana are the only non-signatories and there are some signs that the first three may now be more amenable to adhering to enhanced nuclear safeguard regimes and eventually to the NPT.

Nonetheless, Latin America has not broken fully with the authoritarian side of its heritage. This can only come over time, and it will not occur at the same pace throughout the region. Although some improvement is evident, corruption remains a problem in the generally poorly paid public service and within a business community still adjusting away from a mercantilist commercial system in which personal access to government regulators often meant the difference between success and failure in the much more regulated system of the past.

In Colombia, Peru, Guatemala and El Salvador, insurgent threats (and deeply rooted drug-related problems in the first two) have produced a vicious cycle of violence and counter-violence that undermines the institutions essential to democracy. Nicaragua's democracy remains fragile. The military still retains political influence, particularly in the weaker economies of Honduras, Guatemala, El Salvador and Peru. In Haiti, the military has for years operated as a rogue force, while in Cuba the transition from an abusive and totalitarian regime is still some distance away. The human rights situation has improved overall, but continues to be a problem in several countries. Structural impediments to human rights reform (e.g., lack of a more fully effective judiciary) continue to exist to varying degrees, but are breaking down as the functioning of democratic institutions and culture improves.

#### **4. OBSERVATIONS AND PROPOSALS**

The combination of economic and political change with the NAFTA means that Latin America and the Caribbean are more clearly than ever a part of Canada's future as we move through the 1990s. Yet, the watchword today at home is restraint and reduction. To propose grandiose new initiatives is not on. We need to look at existing resources globally and seek adjustments to ensure that resource allocation adequately underpins the increasing importance to Canada of the Americas region as a whole.

What follows is a series of observations and modest proposals, grouped by the themes of creating prosperity, good governance and building bridges, most of which can be managed through the reallocation of existing resources.

- **Creating Prosperity on a Sustainable Basis - Proposals**

The Canadian government is committed to continuing development of economic and trade relations within the hemisphere. The private sector is interested, although most attention remains focussed on the immediacy of the new opportunities in Mexico. The Monterrey (Mexico), Caracas (Venezuela) and Mexico City trade shows held from 1992 to 1994 were notable not just for the large number of participants, but also because so many were from smaller companies. The challenge will be to maintain this momentum and extend its scope further southward to other important markets.

##### **4.1 Trade Targeting**

As is the case in many developed countries, trade development in Latin America has expanded from export sales of goods to include services, as well as the increased establishment of trade relationships through strategic alliances, technology transfer, joint-ventures and investment development. Given economic liberalization and a consequent shift of the client base from government to the private sector, private sector to private sector linkages should continue to be the focus of our trade and investment efforts. Constituency and awareness building both in Canada and in the region will create and support opportunities for establishing a broader trading relationship. Increased private sector support through consolidated and targeted market intelligence/information and business development programs serves to reduce the risk associated with entering these growth markets. This, of course, is complemented by the use of wider trade and investment agreements and other trade policy tools to secure greater market access.



Securing government procurement contracts should not be seen as a priority, until such time as conditions for adequate official credit and financing prevail and Canadian companies are sufficiently established to participate in the project definition stage. Rather, the concentration and funding could be directed to supporting private firms, with special attention being given to small and medium-sized enterprises (SMEs), in establishing local business partnerships, alliances and possible joint manufacturing facilities.

Rather than developing an all-encompassing trade and investment strategy for the Americas, Canadian interests and activities can be better defined by country and sector. Canadian business is showing unprecedented interest in Mexico. We should capitalize on this heightened awareness of the Mexican market to encourage and expand Canadian commercial-economic interests further south. Recent trade and investment trends and prospects, and, importantly, private sector interest, support the notion of targeting Mexico, Brazil, Venezuela, Colombia, Chile and Argentina for trade development concentration. Canadian sectoral strengths favour some concentration in energy and mineral exploration and development, transportation, telecommunications, environmental technologies, and the agri-food/agro-industrial sectors.

There is merit in reviewing whether the current distribution of Canadian government trade development resources reflects the requirements of a new emphasis on Latin America (apart from incremental NAFTA-related support for Mexico already in place). Special attention should be paid to constituency building and support for strategic alliances, technology transfers and joint venture initiatives. Some examples include, *inter alia*, expanding activities such as EDC's Line of Credit for Mexico, which could be analyzed with a view to establishing a similar "bundling" of credits to pursue small transactions throughout the region<sup>3</sup>; building on the highly successful "Canada Expo" solo trade shows in Mexico (1992) and Venezuela (1993) and instituting them, perhaps on a rotating basis, as a part the government's business development program in the region; preparing and delivering more "export ready" companies to the region through in-Canada awareness programs and private sector to private sector visits; and coordinating regional and provincial business development efforts.

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<sup>3</sup>In this regard, it should be noted that Latin America is the star performer, in terms of overall rates of return over the past twenty years, of PEMD funds managed by Foreign Affairs and International Trade. See Andrew Griffith, From a Trading Nation to a Nation of Traders: Towards a Second Century of Canadian Trade Development, Policy Staff Paper No. 92/5 (March, 1992), pp. 25-6, 34, 61-2.

## 4.2 NAFTA Accession

It is likely that other countries will seek to accede to the NAFTA by agreeing to adopt the Agreement's high-level disciplines covering trade in services and goods, investment, intellectual property, and transparent trade rules including a range of detailed dispute settlement mechanisms. Although the NAFTA represents the first time that industrialized countries have entered into a full-scope free trade arrangement with a developing country, it must be recalled that Mexico did not seek nor did it receive special and differential treatment with regard to the degree of disciplines adopted. Adherence to the NAFTA is only feasible for those countries that have made a major and sustained commitment to market-based economic reform. Many countries in Latin America and elsewhere are not likely to be able and/or willing to accept this level of discipline into the foreseeable future. Yet some are. Chile immediately comes to mind. Venezuela, Colombia and Argentina may come forward by mid decade.

Then there is the Commonwealth Caribbean with which we have longstanding ties of history and commerce. The NAFTA will gradually reduce the value of preferential trade benefits previously extended to them by Canada and the U.S.. The challenge for these economies will be to complete expeditiously the construction of the CARICOM free trade area, including clearer commitments with respect to liberalized investment rules. Canada must encourage this process and work with them through existing mechanisms, such as the Joint Trade and Economic Consultative Committee. A strong, effective commitment to trade and economic liberalization on a sub-regional (i.e., CARICOM or Central American) basis would be the clearest signal that NAFTA accession could become feasible.

Moreover, from a Canadian vantage point, we must be active in shaping the Latin American and Caribbean response to the NAFTA. If we leave the lead solely to the U.S., a hub-and-spoke network may yet emerge centred on the U.S. as the only country with privileged access to and treatment in individual regional markets. Mexico's increasing network of direct free trade agreements with several of its Latin American partners (e.g., Chile, Venezuela and Colombia) raises some of the same concerns. This approach would be inimical to Canadian interests, both because it would disadvantage Canadian exports to those markets and because it would allow the U.S. (or Mexico to a more limited degree) to portray itself as the only economy in the Americas from which an investor can produce for export under preferential conditions to a wide range of markets.

Canada should, therefore, take the initiative and actively reach out to these countries by establishing a regular trade policy dialogue at the senior officials' level that emphasizes the benefits of acceding to the NAFTA, rather than establishing a cumbersome and restrictive hub-and-spoke relationship. This approach would not exclude exploring the possibility of accession with selected Pacific Rim countries, including Korea and Australia.<sup>4</sup>

#### 4.3 Investment Capital Support

Apart from trade, what Latin American countries most need in the economic realm is patient investment capital.

Former U.S. President Bush's "Enterprise for the Americas" initiative led to the creation of two new investment-related programs administered by the Inter-American Development Bank: a) the Investment Sector Loan Program, a new sectoral loan program to provide technical advice and support for privatization and liberalization of investment regimes; and b) a Multilateral Investment Fund, a projected \$1.5 billion multilateral investment fund supported by the U.S., the EU and Japan. While the latter is important, policy reform is arguably more central than cash. Investment, like trade, develops best when rules are transparent and followed in practice. Canada should provide technical and financial support (see below) through the Investment Sector Loan Program to underpin investment reform efforts in the region.

For the most part, tax and investment treaties between Canada and the Latin American countries do not exist. We have signed Foreign Investment Protection Agreements (FIPAs) with Uruguay and Argentina, and the NAFTA extends an even broader range of disciplines to Mexico. We have double taxation treaties with Brazil, Guyana and Mexico. These agreements enhance the security of growing Canadian investments in the region. These investments not only improve the overall profitability of Canadian-based companies, but assist them in opening markets to incremental exports from Canada through intra-firm trade and other mechanisms. It is recommended that priority be given to identifying other regional partners with which we should negotiate such agreements (including through accession to the NAFTA where appropriate). The negotiation of these additional instruments should be concluded within two years. The implementation of such instruments on a bilateral basis will help to prepare the way for accession to the NAFTA.<sup>5</sup>

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<sup>4</sup>This proposal is more fully explored in Keith H. Christie, The Day After: An Agenda for Diversifying Free Trade, Policy Staff Paper No. 94/4 (January 1994).

<sup>5</sup>Given the likelihood that NAFTA accession negotiations with Chile will begin later this year, a FIPA with that country is not needed at this time. The focus now could usefully be directed at Venezuela, Colombia and Brazil.

#### 4.4 ODA Disbursement

The 1989 policy review led to an increase of the proportion of bilateral ODA disbursed to the region as a whole. The region currently accounts for 18% of total Canadian bilateral assistance disbursements. Our international assistance presence in the region now, however, seems too modest when measured against Canadian interests and progress achieved in political and economic good governance, factors which are increasingly recognized as crucial elements of sustainable development and the alleviation of poverty.

Active and dynamic bilateral assistance programmes would be appropriate in light of the region's:

- improved commitment to sound policies (rewarding countries for their efforts and recognizing that bilateral assistance is likely to be that much more effective because of this commitment);
- growing importance as a trade and investment partner (including the opportunity to prepare countries for the obligations and adjustments of the NAFTA);
- importance to Canada's international environmental agenda, especially the development of a sustainable forestry practices convention and the protection of the planet's biodiversity (as regards the latter, Mexico, Colombia, Ecuador, Peru, Brazil and Chile all contain priority areas for conservation according to the World Bank);
- continuing need to address poverty alleviation, with success in this regard reinforcing the good progress being made on political and economic reform.

The amount of bilateral ODA disbursed in the region as a whole should increase significantly from its current level. Within the region, assistance should gradually be directed more towards those countries which are most committed to the implementation of sustainable development policies. For example, Mexico has launched a vast social program call "Solidarity" to bring clean water, paved roads and schools to the poor. Our aid to Mexico is marginal at present. This should change. Technical assistance could be directed towards areas of shared interest, such as environmental protection and the reinforcement of democratic development and civil institutions.

#### 4.5 Environmental Cooperation

Canada's global environmental challenges in the 1990s are to:

- sustain the momentum generated by the 1992 U.N. Conference on the Environment and Development (UNCED);
- continue advancing key Canadian interests, notably in forestry and high seas fisheries; and
- shape the work underway in the GATT and elsewhere on the linkages between trade and the environment so that sustainable development is effectively addressed, while ensuring that Canada's trade interests as the G-7 country that most depends on resource-product exports are fully taken into account.

Several Latin American countries should be intensively cultivated as key players in the environmental area. Brazil, other Amazonian Basin countries and Mexico are important interlocutors with respect to forestry management issues, including forests as carbon sinks and their role in controlling global warming. As economies for which resource and agricultural trade is of critical importance, there is a shared interest with Canada in ensuring that current discussions and eventual negotiations on trade and the environment are managed in a constructive and balanced manner. The Latin American countries also represent an increasingly attractive market for Canadian pollution abatement equipment and technology. Consequently, Canada should establish a regular and sustained environmental policy dialogue with key regional players at the senior officials' level. This dialogue has now begun with Mexico in light of the NAFTA. It should be extended to Amazonian Basin countries, especially Brazil, and Central America. Moreover, as mentioned above, Canadian ODA should sharpen its focus on environmental cooperation, especially with respect to global commons issues such as rain forest management, and private sector technical cooperation related to pollution control and abatement.

- **Political Good Governance - Proposals**

With our commitment to good governance, our solid democratic traditions and our positive image within the region, Canada has an opportunity and an obligation to support, within the limits imposed by fiscal restraint and the availability of human resources, the political liberalization process throughout the region. The establishment, pursuant to a Canadian proposal, and funding of the Unit for the Promotion of Democracy at the OAS has been a substantial manifestation of our

commitment. We should be even more assertive in support of democratic institutions and fundamental human values.

#### 4.6 Provide Further Technical Expertise on Good Governance

- a) **Strengthening of Democracy:** The provision of election monitoring teams, and experts on government process and democracy, are all practical and highly useful approaches. Canada has done excellent work in monitoring elections; as important is the process between elections, including the strengthening of democratic institutions and the appropriate role between the military and the state. The Centre for Human Rights and Democratic Development and Elections Canada could provide expertise in these areas, perhaps with modest funding from CIDA from a regional "democracy fund".
- b) **Good Governance:** In addition, we could offer advice on the process of good government including such areas as privatization, regulatory reform, tax collection and reduced military spending. For example, the Competition Bureau in the Department of Industry can provide valuable insight and practical experience on the importance and operation of competition (anti-trust) legislation for the effective operation of markets. Finance and Revenue Canada can do the same for taxation policy and administration. Regional seminars with senior officials from the region (perhaps in cooperation with the OAS) could be effective, as could presentations to appropriate Latin American congressional committees. The expense would be minor.
- c) **Demilitarization and the Role of the Military:** One of the biggest hurdles to the development of democracy in the region has been the penchant of the military in some countries to intervene whenever there is a perception of paralysis in government. One innovative area in which we have abundant expertise that could be put to good use would be the training in Canada of a number of Latin American military officers (at the levels of major through full colonel) in the art of peacekeeping. This proposal represents an attractive way of instilling the virtues of the proper relationship between the state and its military arm. It would also potentially enlarge the pool of available and competent peacekeepers for United Nations duty. In addition, Canada should continue to seek to revamp the Inter-American Defence Board and College so that these institutions address more directly the role of the military in a democratic society, including providing training and expertise on issues such as disaster assistance, peacekeeping and environmental protection. Finally, Canada should continue to promote transparency in arms transfers throughout the region by encouraging Latin American and Caribbean nations to make timely, accurate

reports for inclusion in the International Register of Arms Transfers, a Canadian sponsored UN confidence-building initiative.

#### **4.7 Encourage Adherence to and Renewal of the Non-Proliferation Treaty (NPT)**

Latin American resistance to NPT signature has rested on two pillars: satisfaction with the Treaty of Tlaltelolco and rejection of the NPT as a "discriminatory" document. Recent indications suggest that Argentina may be moving to signing the NPT, but only in concert with Brazil. Should this occur, and it is a decision that Canada should continue to encourage, it would open the way for adhesion by Chile. Over the next year before the 1995 NPT Review Conference, it will be crucial to encourage Argentina's adhesion. It will also be essential to ensure that Brazil follows the lead of Argentina. The fact that Brazil has entered into a cooperative economic arrangement with Argentina and that both have a safeguards agreement with the International Atomic Energy Agency may be signs that Brazilian national sovereignty concerns vis-à-vis the NPT have receded. In any event, Canada should undertake an active dialogue with the Southern Cone nations on this matter. At the same time, attention should also be focussed on Cuba.

#### **4.8 Reintegration of Cuba: Fostering Peaceful Transition**

Cuba poses a special dilemma for Canadian foreign policy that we should address carefully. Canada has maintained good relations with Cuba, especially with respect to trade, since the imposition of the U.S. embargo and the severing of diplomatic relations between Havana and Washington more than thirty years ago. The past may, however, be of limited use as a guide to the future. Although some economic reforms have been initiated in recent years in response to the end of Soviet support, the Castro government has shown less interest in introducing meaningful political changes and the regime's human rights record continues to give cause for concern. Rigidities exist that will complicate the transition, especially in the revanchist Cuban-American community and among American officials and politicians who feel vindicated for having kept the U.S. on an anti-Castro course.

It is clear, however, that regional interests will not be served should the transition to post-Castro Cuba turn violent. There are options open to Canada which would enable us to enhance the scope and quality of our relations with the present government, to protect and expand our interests now and in the future and to position ourselves to play an appropriate role in the transition itself. We should not shy away from being a player in the unfolding drama, given our presence in both Washington and Havana and our membership in the OAS.

- **Building Bridges - Proposals**

#### **4.9 Establish a Foundation for the Americas**

One of the successful ingredients in our Asia Pacific policy was the establishment of the Asia Pacific Foundation and Pacific 2000. These may offer useful models for emulation, especially in light of the government's commitment to building linkages with the Americas as the 'fourth pillar' of Canadian foreign policy. An umbrella "Foundation for the Americas" (not to be confused with the existing Canadian Foundation for the Americas, the name under which the former Canada-Latin America Forum (FOCAL) has been incorporated since January 1993) could emphasize trade links, the environment (building on the Rio conference) and cooperation between educational institutions. It would also provide a cause around which to galvanize private sector and provincial government support.

Several institutions currently work to fill part of the need for coordinating more effectively public interest in Latin America and the Caribbean, including the Canadian Council for the Americas, the Canada-Brazil Chamber of Commerce and the aforementioned Canadian Foundation for the Americas. It is for consideration whether one umbrella foundation might present a more effective use of limited federal, provincial and private sector funding already engaged in promoting greater contact with Latin America. Potential provincial and private sector interest should be explored.

#### **4.10 Enhanced Contacts Through Multilateral Channels**

We should seek greater dialogue with Latin American countries in multilateral settings. We should, for example, seek out the views of the Latin American Group at the United Nations on a more systematic basis and coordinate positions with the Latin Americans when and where this would be appropriate. Our decision to assume full OAS membership was greeted enthusiastically by all the other members of the Organization and our performance as an OAS member has substantially enhanced our standing in the region. We should continue to use our influence with Latin American and Caribbean countries to promote institutional reform in both the UN system and the OAS.

##### **a) Institution Building at the OAS**

The OAS is central to our hemispheric policy. It is an example where the reality of our effort and the organization's willingness to change gradually have surpassed



our modest initial expectations - a too rare occurrence. Moreover, Canada's work in the OAS has been well received by the media, the public and other interested parties. The OAS is a useful meeting point and forum for discussion and, to a somewhat greater degree than in the past, for action (it was helpful during the Haitian crisis). Cuba's eventual denouement will provide another test for the OAS as a multilateral instrument in the Americas. It offers an excellent venue to promote our policies on good governance, human rights and democracy (as was done with the creation of the Unit for the Promotion of Democracy, a Canadian proposal backed by \$1 million in funding over two years). As a further demonstration of the depth of our commitment to the Organization, we could offer to host the annual General Assembly of the OAS in the near future, perhaps as early as 1996 (Canada will host the G-7 Summit in 1995).

Canada is well placed, and has already begun, to exercise leadership with respect to internal reform of the OAS. Other suggestions aimed at strengthening the useful but still modest trend to greater relevance include:

- i) The federal government should ensure that Canadian initiatives launched in the OAS, including further budgetary reform and the revamping of OAS technical assistance programmes, are actively reinforced by assigning sufficient human resources to our Embassies in regional capitals to ensure that local governments forward supportive instructions to their OAS delegations.
- ii) The OAS scholarship program is a good one and Canada makes a significant financial contribution. In order to strengthen Canadian contacts with the region, we should ensure that more Latin Americans funded by this program come to Canadian universities and that more Canadian students undertake studies in and on Latin America.
- iii) Canada should continue its policy towards the Inter-American Defence Board of reducing its budget until its role and mandate have changed (promoting more clearly an appropriate relationship between the military and the State). In the meantime, Canada should seek temporary observer status at the Board. A defence attaché from the Embassy in Washington could be tasked to do so.
- iv) We should continue the good work aimed at the reform of the Special Committee for Consultation and Negotiation (CECON). For example, there is a lack of adequate institutional capacity to guide regional integration efforts in the Southern Cone, the Andean region, Central America and the Caribbean. CECON could serve as a clearing-house to collect, systematize and distribute information on trade and financial matters. It could eventually act as something

of a think tank to analyze the key issues affecting hemispheric integration, to evaluate integration initiatives and, under the umbrella of the OAS, to act as a source of technical assistance in designing and harmonizing trade and related policies. Current resources in the field and at headquarters can meet the modest additional effort required.

**b) Latin America and the Pacific**

A number of Latin American countries border on the Pacific. With the exception of Mexico and Chile, their involvement in Pacific issues has been modest, although Chile, Mexico and Peru are members of the Pacific Basin Economic Council (PBEC) and in 1991 they were admitted to the Pacific Economic Cooperation Council (PECC). Canada supported the entry of Mexico into the Asia Pacific Economic Cooperation (APEC) forum at last November's APEC Ministerial meeting. Canada also supported the decision to secure Chilean membership for 1994. Our interests would be furthered by the admission of more Latin American nations that demonstrate a Pacific vocation. We should encourage the enlargement of APEC to include appropriate Latin American nations such as Colombia, Ecuador, Peru and Costa Rica over the medium term and should encourage these countries to take a greater interest in Pacific affairs.

**4.11 Promote the Marketing of Canadian Educational Institutions and Services**

Fewer than 4% of foreign graduate students in Canada come from Latin America and the Caribbean. The proportion is even lower at the undergraduate level. Yet, education remains one of our most efficient service industries. It is estimated that each foreign student spends over \$12,000 annually while in Canada. As we strengthen our links with the newly industrialized countries in Asia, we have found that the presence of graduates of Canadian schools and universities has immensely benefitted our efforts to establish effective networks throughout local government and with the private sector. In the small Caribbean states, there are significant numbers of graduates from Canadian institutions. By comparison, we take relatively few students from Latin America. Greater emphasis should be placed on marketing Canadian education in Latin America. An effort to increase the awareness of Canadian education services is required. Canadian governments should encourage marketing missions for commercial and private education services. Moreover, the government should designate a proportion of the increase in international assistance funding recommended above for the purpose of partially financing post-graduate work in Canada by high quality Latin American candidates (along the lines of a modified Fulbright Foundation). In addition, Latin American businessmen might be targeted as

candidates for enrollment in Executive MBA programs offered at a number of Canadian institutions. Over the medium term, it might be possible, with some government support, to develop these business/academic linkages into true exchange programs, involving participation by Canadians in seminars and courses held in key business centres in the region.

#### **4.12 Target Visits, In and Out**

Unlike Europe or Asia, Latin America and the Caribbean does not receive high-level visits commensurate with its new importance.<sup>6</sup> This must change if we are to convince the Americas, in which personal contacts are normal and expected, that we are serious about our commitment. Visits are highly visible expressions of the importance we place on the region. A coordinated programme of visits to and from core countries for 1994-5 involving the Prime Minister and senior ministers as well as senior officials should be established in consultation with ministers' offices.

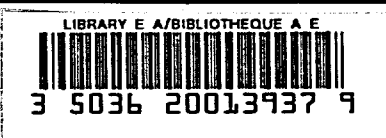
#### **4.13 Raising Public Profile**

We need to give more attention to promoting greater public awareness of Latin America in Canada, and Canada in Latin America. With respect to the latter, we should encourage the "Canada Centres" already established in six Argentinean and three Brazilian cities through additional print and visual information programs. The Centres for Canadian Studies in Latin America should receive top priority in the public affairs activities of our regional missions, especially in light of the importance of further internationalizing Canadian higher education as outlined in section 4.11 above. In this regard, current cooperation on administration and curriculum development by the Organisation Universitaire Interaméricaine (OUI) is promising and should be built on.

Inside Canada, the twinning of university level Latin American and Caribbean Studies programs with counterpart Canadian Studies programs in Latin American institutions should be encouraged. The federal government should work with provincial and university authorities to promote Spanish language training in Canada (the Foundation for the Americas proposed in section 4.9 could be helpful in this regard). When completed, we should publicize Canada's new Latin American and Caribbean strategy in Canada through the media and in universities/colleges, including through the Department's out-reach programme.

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<sup>6</sup>On this point, see Keith H. Christie, *Different Strokes: Regionalism and Canada's Economic Diplomacy*, Policy Staff Paper No. 93/08 (May 1993), pp. 10-11, 19-20.



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