

Statement

Minister for
International
Trade



Déclaration

Ministre du
Commerce
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NOTES FOR A SPEECH BY

THE HONOURABLE MICHAEL H. WILSON,

MINISTER FOR INTERNATIONAL TRADE,

AND MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY,

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ON NORTH AMERICAN FREE TRADE

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Affaires extérieures et
Commerce extérieur Canada

External Affairs and
International Trade Canada

Canada

It is a great pleasure for me to be able to be here today and to share this platform with Mr. Jaime Serra, Mexico's Minister of Commerce and Industrial Development, and Jules Katz, Deputy United States Trade Representative. This happens to be my first speech in my new job. I can think of no better place to begin than here in Montreal at a conference on this issue. Canada is a country which counts on trade; Quebec is a province which prospers through trade; and Montreal is a city built on trade. And the issue which this conference is considering is a very important economic challenge facing this country today -- a North American free trade agreement. The negotiation of that agreement is integral to the approach this Government has taken to trade for the last six and a half years. It, along with the Free Trade Agreement (FTA) and the ongoing multilateral trade negotiations (MTN), form the core of our strategy for building prosperity at home through trade abroad. The stakes at issue in these trade agreements are nothing less than the future prosperity of Canada, from coast to coast.

I have referred to my new job. And indeed there is much about that job which is new for me -- different responsibilities, distinct areas of concern. But while the detail is different, the fundamentals are the same. Much of what I did as Finance Minister was designed to make this country more competitive. A country mired in debt is a country debilitated. A country gripped by inflation is a country inflicted. A country made unattractive to foreign investors is a country made poor. And a country burdened with a sales tax which rewards foreign competition and an income tax which is unfair or outmoded is a country which prejudices its own progress.

People abroad watch how we manage ourselves at home. How well we manage ourselves at home determines how competitive we are abroad -- as an exporter and as a place to invest. The key is competitiveness. Competitiveness lets us trade. Trade makes us competitive. Competitiveness and trade are not add-ons or optional extras for a modern economy. Competitiveness and trade are what make an economy modern and make it succeed. That is not argument or ideology. That is reality. And it is not a new reality for Canada.

The Canadian market is small in comparison with others. Twenty-six million people cannot sustain a prosperous economy. The economies of scale are absent. The customers are too few. A Canadian economy which relied only on its own market would produce goods at high cost resulting in high prices. People would buy elsewhere -- in Europe, in Asia or in the United States, larger economies which have the economies of scale we lack. Canada would be condemned to an inferiority from which it could never recover.

Knowing that fact of life has made Canada into one of the world's great trading nations. Our industry knows it must compete abroad if it is to be successful at home. That's where the economies of

scale lie. That's what generates revenue -- revenue which can be used for modernization, for research and development, for expansion and training. And that revenue creates jobs and sustains them.

In 1984, this Government produced a policy paper called "Competitiveness and Security." That paper concluded: "... secure access to a larger market is a necessary precondition of competitiveness." Protectionism -- the greatest threat to that secure market access -- was a problem we knew then had to be addressed. That policy paper noted that "the rise of protectionism abroad threatens to reduce our access to foreign markets ... with potentially damaging consequences for our industrial structure and national prosperity."

The FTA, the MTN, and the North American free trade talks are complementary, not competitive. They flow from the same reality, the same logic, the identical requirements for access to larger markets which sustain our competitiveness and build our prosperity. The Canadian requirement for secure market access and the need to guard against protectionism led us to negotiate the Free Trade Agreement with the United States. It lies behind our ongoing push for a successful conclusion to the multilateral trade negotiations. And it has driven our decision to join with the United States and Mexico in trilateral free trade talks.

I want to outline today in as clear a fashion as I can the reasons this Government decided to enter into free trade talks with the United States and Mexico. I want to explain what we seek. And I want to make clear what we will not accept.

First, a North American free trade agreement will equip Canadian industry to be more competitive on this continent and beyond. This is a market of 360 million people with an economic product of \$6 trillion. That's bigger than Europe, bigger than any other market. Canadian industry which can compete on this continent will be able to compete around the globe. As with the FTA, that market will allow us to achieve new economies of scale and specialization. Our firms can become more efficient and more productive. That will create wealth and create jobs. And it will do so for all three countries as each exercises its comparative advantage.

Second, with free trade, the Mexican market itself will be open to Canadian industry. That market is at present relatively small -- accounting for just over \$2 billion in two-way trade, less than half of 1 per cent of our exports and just over 1 per cent of our imports. But Mexico is a market poised for expansion. It is open for business as never before. President Salinas has taken brave steps to liberate his economy from protection, regulation and bureaucracy. The President of the World Bank has described his reforms as "one of the most ambitious, courageous

and determined programs of economic reform and institutional change recently undertaken in any country." Mexico is becoming a market in fact, not just theory, a market of 85 million people which could be the springboard to a Latin American market of 600 million.

A Mexico which is poor will not buy our products. But a Mexico which is prospering -- prospering through trade -- is a market worthy of attention. Mexico needs what we produce. It needs transportation equipment and infrastructure, and telecommunications systems. It needs oil and gas technology, agricultural expertise and systems. Those are all areas where we are successful internationally.

There is concern about the low wage rates in Mexico. And certainly that will lead some industries to source production there when low-cost, labour-intensive components are needed. But such strategies will also make those companies more competitive, thereby boosting the high-cost, skilled labour force elements of their production in Canada and the United States. Mexico will win. The United States will win. Canada will win. That is the nature of free trade.

I believe it is important that we be realistic here. Canada will be competing with Mexico whether or not there is a trilateral free trade area. The issue is this: do we want in -- with the balanced benefits and phase-in that involves -- or do we want to stay out -- deprived of all benefits and exposed to all the downside risks?

Third, through trilateral free trade, Canada will remain an attractive place to invest. Investing in Canada will mean automatic access to all three continental markets, just as the FTA guarantees investors access to the U.S. market. Were Canada to stay outside these talks, one of our FTA advantages would be threatened. Investors would then choose to put their money in the United States, knowing that they would thereby also get access to both Mexico and Canada. And they would think twice before investing in Canada if our absence from North American free trade did not give us equivalent access to both other continental markets.

A trilateral agreement would have another beneficial effect. Not only would the playing field be even, but the players would be playing from the same rule book. Companies would not have to waste time and resources adapting their products and practices to different sets of regulations in each economy. While preserving important independence in areas vital to national sovereignty and identity, North American free trade would delete expensive duplication, creating more efficient companies better prepared to be strong contenders globally.

I think many Canadians understand these realities. But concerns persist. Some worry that we will reopen the FTA and dilute its provisions or remove its safeguards. Some are concerned by the environmental and labour conditions in Mexico. And still others worry about the adjustment period and measures which will accompany a North American free trade agreement. I will address these one by one.

This Government believes that the FTA is a good deal. It is balanced and fair. It is an agreement worth safeguarding.

There are some in the United States Congress and elsewhere who have suggested trying to secure from Canada in trilateral negotiations what they were unable to secure from us in bilateral negotiations. Let me be clear about where we stand on this issue. Canada is not going to let the United States get through the back door what it could not get through the front door. The FTA is signed, sealed and delivered. We will not negotiate it twice.

That applies in particular to pressure from U.S. lobby groups to challenge Canada's special measures of support for its cultural industry. That pressure will not work. This Government insisted on maintaining special measures of support for its cultural industries when it negotiated the FTA. It is not prepared to negotiate now what was settled then, particularly when the capacity of Canadians to reflect their nationhood to each other has never been more important. That is a point of principle.

But the FTA as a whole may not be a perfect agreement from a Canadian point of view. Improvement is not impossible. Indeed, the FTA itself instructs the parties to seek improvement, which is ongoing right now. If we can identify areas where the FTA could be made even better, we will not hesitate to pursue them. But we will be guided by one criterion only: what is best for Canadian industry and Canadian jobs. Reducing the benefits which come from the FTA is not a price we are willing to pay for a North American accord.

A second set of concerns relates to environmental and labour standards. Some people worry that we will let our own standards slip in both areas. They need not worry. Canadians are justifiably proud of their labour standards, their environmental standards, their safety standards. This Government is not going to preside over their erosion. That will not be the result of North American free trade.

I also believe it is misplaced to see labour or environmental standards in Mexico as a reason to reject trade negotiations with that country. I do not dismiss the concerns of those who lament the current state of the Mexican environment or those who would

wish a better life for the Mexican worker. Those concerns were not treated lightly by President Salinas when he recently visited this country. He sees the deficiencies. He wants to make improvements, and he has made many already. But he made one compelling point. And that was that the road to higher wages and a cleaner environment lies through greater prosperity. And that prosperity is dependent upon the opportunity provided by trade. Are we to deny him that prosperity by denying him free trade?

A new trading environment requires industry and workers to adapt to new conditions. The Canadian economy has an excellent track record in responding to those changes.

We are not newcomers to the realities and pressures of international trade. For years now, through progressive reductions in tariffs and trade barriers, Canadian companies and the labour force have not only rolled with the punches, but have continued to do well in a tough and competitive marketplace. Where needed, the Government has provided programs to help industry and workers make the necessary changes.

We do not anticipate that a trilateral free trade agreement will put any strain on the economy. About 80 per cent of our trade with Mexico is already tariff-free. Furthermore, where tariffs exist, a phased reduction will cushion industries from disruptions.

Programs will continue to be available to help Canadian industry become more globally competitive. The Canadian Jobs Strategy helps in the development of our labour market through job creation, adjustment, mobility and retraining. Industry, Science and Technology Canada has a broad range of programs, ranging from sector competitiveness initiatives to small business loans. External Affairs and International Trade Canada has also mounted a wide range of initiatives, some global, some tailored to the challenges and opportunities of particular regions.

All of the major programs have been reviewed and, where appropriate, modified to improve their effectiveness and increase their flexibility. In total there are 400 programs of adjustment available from all levels of government in Canada. And those have recently been supplemented through reform of the unemployment insurance system, yielding an \$800-million Labour Force Development Strategy.

I would emphasize that these programs are not designed to create an industrial welfare system. They are aimed at preparing industry and workers to be able to rely on themselves.

One final point. I can assure you that, as we did with the FTA, and as we are doing now with the MTN, we will involve all sectors of business from every region of this country, providing them

with information and seeking their advice. A key mechanism for doing this will be the International Trade Advisory Committee (ITAC) and the Sectoral Advisory Groups International Trade (SAGITs). We are also consulting regularly with provincial governments to allow them to raise concerns and provide suggestions. We welcome the active involvement of the Canadian labour movement in the consultation process, as occurred after the FTA went into effect and as continues with the General Agreement on Tariffs and Trade (GATT).

It would not be an exaggeration to say that our close consultations have brought about a unanimous consensus on the FTA. But it is still early days, and the recession clouds analysis; we believe we can see signs already of the benefits flowing from the FTA:

- In 1988, just prior to the implementation of the FTA, the net direct investment outflow from Canada was \$2.5 billion. In 1990, Canada had a record net direct investment inflow of \$5.7 billion from all countries. The turnaround in direct investment flows from other countries suggests that overseas investors see Canada as an increasingly attractive base for their North American operations.
- Canadians are also investing more in their own economy. In 1990, they invested 30 times as much at home as they invested abroad in mergers and acquisitions, a three-fold increase over 1988, the year the FTA was signed.

I believe that we will be proven right in our judgement of free trade. That applies to the FTA. It applies to North American free trade too. We will be proven right by the facts. And we will be proven right by the logic. Those who would have us reject freer trade -- whether bilaterally, trilaterally or globally -- would have Canada diminish its own future. The Government cannot reject the globalization of international trade. The only way to influence what is negotiated at the table is to be at that table.

The world is trading. Competition is tough. We did not make it that way and we cannot wish it away. A failure to trade is a failure to compete. And the inability to compete would mean failure in trade. That is a circle that cannot be broken. It is a reality we cannot ignore.

Competitiveness is easy to describe. It is more difficult to achieve. Achieving that goal is my new responsibility, as it was in a different way in the job I have left. And with your help, and that of Canadians across this country, we will achieve that goal together.