

Statement

Minister for
International
Trade



Déclaration

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CHECK AGAINST DELIVERY

"CANADA AND NORTH AMERICAN FREE TRADE"

NOTES FOR A SPEECH BY

THE MINISTER FOR INTERNATIONAL TRADE,

JOHN C. CROSBIE,

IN MEXICO CITY

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The announcement on February 5 that our three countries would negotiate a North American free-trade agreement was an historic one. It set in train a process that will reward and enrich our three countries and make us the envy of the world. Unfortunately, it will not necessarily make any of us popular with our electorates. That great British historian and man of letters, Lord Macaulay, could not have put it more aptly when he wrote:

Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular.

I know whereof Macaulay spoke.

The government of Canada negotiated a free trade agreement (FTA) with the United States in 1987. Not a perfect agreement, but a good agreement, one that is working to the mutual benefit of both Canada and the United States. This agreement is not as popular as it should be or as it will become once its benefits become clear to Canadians. For the time being, it has become a lightning rod for every ill.

If you would believe our critics, every person who lost a job in the past three years lost it because of the FTA; every factory that closed in the past three years, closed because of the FTA; every sparrow that fell in the past three years, was knocked off its perch by the FTA.

You may well ask, therefore, why we decided that we want to build on the FTA by joining the United States and Mexico in negotiating a North American Free Trade Agreement or NAFTA. Why should the Government of Canada want to complicate its already difficult situation by negotiating even more free trade? Can a Canadian government reeling from the criticism generated by the FTA, conclude and sell an NAFTA?

These are good questions to which, fortunately, there are even better answers.

The best answer is a simple one. A North American Free Trade Agreement makes sense because it is good public policy -- good economic policy, good trade policy and good foreign policy. It is good public policy for Canada, for the United States and for Mexico.

We can not assume that this agreement, however sensible, will be universally welcome. We in government and you in business have our work cut out for us. We will have to be very persuasive to overcome the damage that will be done by the modern-day Luddites, by those who want to stop the world and get off.

Let me give you a Canadian perspective on why a North American free trade agreement is good public policy.

In the past decade, Canadians have become increasingly aware of the importance of international competition. We have learned that our future well-being requires that we gain more open and more secure access to foreign markets.

But even more importantly, we have learned that we need to take steps to maintain and secure access to our own market. We have learned that if you cannot compete at home, you cannot compete abroad. We have learned that we need to develop a stronger, more outward-looking domestic economy.

Canadians have long been used to the benefits that flowed from the export of resources. We are now learning the extent to which we must also be competitive in the manufacturing and service sectors. We can no longer afford to shield our more vulnerable sectors from international competition. We are getting to know the pitfalls that result from sheltering the domestic economy from the realities of the global marketplace.

Canada's future prosperity demands not only that we buy and sell goods and services at world prices, but that we attract new foreign investment to Canada. We need to develop the corporate and governmental linkages that pave the way to future trade and guarantee access to the most up-to-date technology.

And we need to ensure that Canadians remain among the most skilled and knowledgeable workers in the world. Meeting these challenges will ensure that Canadians will continue to prosper.

With these goals in mind, the Government of Prime Minister Brian Mulroney introduced a comprehensive program of economic renewal in 1984. By liberalizing markets, encouraging foreign investment, improving fiscal performance, reforming taxes, modernizing competition laws, privatizing crown corporations, strengthening intellectual property protection and streamlining economic regulation, the Government sought to make Canada a more hospitable place in which to do business.

Negotiating freer and more open trade with Mexico is part and parcel of that program. By liberalizing access to our market within the confines of a mutually beneficial set of rules, we want to encourage Canadian producers to restructure and become more competitive. Hand in hand with the rest of the Government's economic program, trade

liberalization, whether achieved multilaterally, bilaterally or trilaterally, is a necessary step to securing our future prosperity.

Our determination to ensure that the Canadian economy adapts to the pressures of a global economy has run up against powerful protectionist and nationalist forces. The debate in Canada has been fierce, but we have resisted those forces. We do not believe that protectionism has any part in preparing Canada for the twenty-first century. We believe that governments must manage change, not become its victim.

In today's world of interdependent economies and global markets, the key to our future prosperity lies in becoming more integrated into the world economy. That will involve negotiating secure and open access to foreign markets in return for open and secure access to our own market.

The world trading order is going through difficult times. The problems being encountered in bringing the Uruguay Round to a successful conclusion suggest the extent to which there is disenchantment with the existing order. Too many governments appear unable or unwilling to take the tough decisions required to make substantial progress. The goal of a liberal trading order has never appeared more desirable than it does today, the means never more elusive. We must continue to try, but we must not become prisoners of a single strategy.

Our destiny lies in our geography. If we are to become successful world traders, we must first of all become successful North American traders. Canada believes it makes sense to develop a much stronger North American base from which to tackle global markets and strengthen global rules.

The Canada-U.S. FTA requires Canadians to confront the reality of economic interdependence, of global competition and of geographic location. It brought the issue of adjustment to the forefront. It suggested the extent to which adjustment requires a national consensus favouring competition, a consensus forged between government, business and labour.

For those who believe that economies prosper behind high tariff walls and other forms of protection that thumb their nose at the rest of the world, free trade is bad policy.

But for those who believe that North America will prosper through more open trading conditions, who believe that barriers retard growth and that closed borders nurture inefficiency, free trade makes sense. It made sense when we

negotiated the FTA and it makes sense to build on that agreement by negotiating a NAFTA.

The FTA now covers the largest bilateral commercial relationship in the world, exceeding more than C\$200 billion of trade in 1990. It governs an unprecedented range of economic activities, including trade in goods and services as well as investment. And it does more to achieve fair and open market access under the rule of law than anything that has been achieved bilaterally or under the GATT to this day.

In 1989, manufacturing investment in Canada increased by 15 per cent. Investment in new plant and equipment accounted for more than 16 per cent of the Canadian GNP. That level was second only to Japan's among the G-7 nations and was considerably better than the 12.5 per cent figure recorded in the United States.

In 1990, Canada's trade performance was one of the bright spots in an otherwise pessimistic economic outlook. In a recent report, the OECD points out that Canada's strength in international trade has cushioned the country from a more debilitating recession.

Since the implementation of the Free Trade Agreement, our trade surplus with the United States has been increasing and reached about C\$18 billion in 1990, compared to close to C\$13 billion in 1989. The share of Canadian exports going to the United States has also been increasing, while the import share of the United States in Canada has not.

The investment picture has been even more impressive. While the media highlights plant closures and southward job migration, the facts are that even more jobs and investment are migrating to Canada.

In a recent report, the Royal Bank of Canada points out that in 1988, there was a net direct investment outflow of C\$7.3 billion. In the first three quarters of 1990, there has been a substantial reversal. We now have net investment inflow to Canada. Foreign and domestic investors see Canada as an attractive place to do business. Rather than deepening the recession, the Royal Bank concludes, free trade with the United States is cushioning its impact by improving access to the U.S. market and sustaining new investment aimed at restructuring Canadian industry.

A trilateral accord embracing Canada, the United States and Mexico would take these achievements even further. It would transform a free trade area of nearly 275 million people into one of almost 360 million people -- larger than the 12

countries of the European Community. Trade in goods and services would exceed U.S.\$250 billion annually. Our combined GDP would be in excess of U.S.\$6 trillion.

A trilateral accord would build upon a solid base. The United States, of course, is the most important trading partner of both its northern and southern neighbours. Mexico is already Canada's most important trading partner in Latin America, and the United States' third most important trading partner in the world after Canada and Japan. And Mexico's recent reforms in economic, trade and investment policy are creating new opportunities for Canadian and American exporters in a growing Mexican market.

A trilateral accord thus makes good sense. That is why our three governments have now decided to proceed to negotiations, with each country a full partner from the outset. Building on the achievement of the FTA, we are determined to forge a single new agreement that will take into account the needs and aspirations of all three countries.

That is the approach we have favoured from the beginning. It is the only one that commends itself to us because it provides the best assurance against the development of mismatched obligations or preferential and possibly discriminatory arrangements. The need to avoid such arrangements is clear enough in a trilateral context. It becomes even more obvious when looking beyond North American free trade to possible hemispheric free trade.

It is in that sense that a free-trade agreement among our three countries will prove good foreign policy. 1990 was one of the great watershed years in modern history. While events in the Gulf over the past few months have cast a long and troubling shadow, they should not obscure the positive developments of the past twelve months: the collapse of the Soviet Empire; the end of the Cold War; the retreat from racism in South Africa; and the resurgence of the United Nations as a force for order and progress.

Here in Latin America, there have been equally momentous events. Throughout the region, nation after nation is rejecting unhappy traditions of dictatorship and corruption. And nation after nation is embracing the catalyst of market economics.

Latin America is looking to its northern neighbours for inspiration. Canada and the United States have reason to respond and forge a new partnership in the new world. Our combined potential is vast, with a population of more than

600 million people, a wealth of natural resources, and an enviable level of economic development.

Developments in Mexico are an important part of the changes taking place in the hemisphere. Mexico too has turned its back on the economics of the past and is opening itself to a new and brighter future.

An agreement between our three countries will help to strengthen ties and promote common goals and shared values. Our societies will benefit not only from greater economic exchange but also from increased interaction among our people. In the words of one of Canada's greatest prime ministers, Sir Wilfred Laurier, "... the experience of all ages abundantly testifies that trade is ever the most potent agency of peace, amity, and mutual respect between nations."

By working together as three great nations on a common project, we will contribute to building a more prosperous future for the continent and for the hemisphere.

For some, the rapid changes taking place on our globe seem fraught with risk. I see them as filled with promise. By responding constructively and creatively, we should be able to manage change to our common advantage rather than resisting it to our common disadvantage.

The last time the world faced such momentous changes was more than four decades ago. The response was a bold new global system to create order out of the chaos of fifteen years of depression and war.

Based upon an unselfish U.S. commitment to liberalism and multilateralism, institutions like the United Nations, the International Monetary Fund, the World Bank and the GATT brought about the greatest increase in economic and political well-being in history.

If we can keep the risks in check, the 1990s offer the potential to unleash another round of similarly creative forces. A trilateral trade agreement could prove a stepping stone to a new and better world trading order.

For Canada, the object is not an exclusive trading bloc but rather a building block for further international cooperation. We are not interested in loosening our other ties across the Atlantic and Pacific. Indeed, a strong North American partnership is a natural and necessary complement to strong Atlantic and Pacific partnerships within a vibrant multilateral trading system. Canada, the United States and Mexico have many common interests in Europe and in the Asia-Pacific region. We may achieve them

more readily in concert than alone: as partners, not opponents.

What will Canada seek in a NAFTA? We will pursue three broad objectives:

- we want an agreement that will reward Canadian producers who are prepared to restructure and modernize by giving them open and secure access to all of North America;
- we want an agreement that responds to the realities of the global market and extends the enduring principles of an open trading system to trade in goods and services as well as to investment; and
- we want a set of rules that will allow us to settle our differences quickly, fairly and amicably.

Canada is not here for a quick and easy return; we're here for the long haul. We are prepared to make an investment in our common future.

Reaching a trilateral accord will not be an easy task. The negotiations will be tough and the differences hard to bridge.

The difficulties will not come because we lack the will or the vision, but because we will have to make compromises within an increasingly skeptical public atmosphere. We will have to find tradeoffs between competing imperatives and satisfy conflicting but equally compelling interests. But we will find them in the end.

Our experience in negotiating the FTA taught us that our efforts to craft a good and comprehensive North American Free Trade Agreement will be bedevilled and assailed by critics from all sides. But we will prove them wrong in the end.

I am confident that the final product will be worth the effort. But it will only come if we all work together.

Five years ago, U.S. and Canadian business sent a message to Washington and Ottawa that the old arrangements for trade and investment between our two countries needed replacement by a new, bold, innovative and far reaching agreement to carry us into the 1990s and beyond. Without such a message, the two governments would not have embarked upon the arduous and politically challenging path of negotiation.

A similar message of confidence and commitment is needed today. Business should make its views known.

You need to take a stand. You need to signal clearly and unequivocally that you will side with those who want to make North America a more open and more secure place to do business. A better place to do business for North Americans. A better place to do business for every one.