Department of Foreign Affairs and International Trade

Statement

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NOTES FOR AN ADDRESS BY

THE HONOURABLE ROY MacLAREN,

MINISTER FOR INTERNATIONAL TRADE,

TO THE BRAZIL-CANADA CHAMBER OF COMMERCE

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Government of Canada Gouvernement du Canada

Canada

There are two reasons why there could be no better timing for a conference on export and investment opportunities for Canadian business in Brazil.

First, the assumption of office on January 1, 1995, of the new Brazilian President, Fernando Henrique Cardoso, marks an important stage in the transition of Brazil to an open-market economy.

Second, later in January, Prime Minister Jean Chrétien will lead a large business delegation to Brazil, Argentina and Chile. His visit will demonstrate this government's commitment to stimulating economic growth and creating employment through expanded trade with Latin America.

In fact, 1995 will be a year of unprecedented opportunity for Canada to achieve a major expansion of its economic relationship with Brazil, to the benefit of both our countries.

Beyond that, 1995 also promises to be an exciting year for hemispheric trade, starting with the Summit of the Americas in Miami in less than two weeks. Although a two-day meeting is unlikely to produce dramatic results, one would hope that we can come out of the Summit with a firm commitment to the process of rules-based trade liberalization in the Western Hemisphere, and, ideally, a blueprint for Chile's early accession to the NAFTA [North American Free Trade Agreement].

The Western Hemisphere has the opportunity to emerge as a free trade model for the world. In January of this year, Canada, the United States and Mexico implemented the North American Free Trade Agreement, building on the bilateral Canada-U.S. agreement negotiated five years before. Additionally, Mexico has entered into a free trade arrangement with Venezuela and Colombia under the umbrella of the G-3. A revived Andean Pact will link the economies of Peru, Bolivia, Colombia, Ecuador and Venezuela through freer trade. Brazil has joined Argentina, Paraguay and Uruguay in moving the Mercosul further toward a full common market.

In supporting the ideals of freer trade through Mercosul, Brazil has shown commendable foresight, courage and political willpower. A first, and all-important, commitment to open markets has been made. Thanks to strong, visionary leaders in Brazil and throughout the Americas, bilateral and multilateral free trade is breaking out all over the Western Hemisphere.

These remarkable strides in recent years make it all the more curious that the next logical step — a single free trade regime for the Western Hemisphere as a whole — remains elusive.

An increasingly tangled web of bilateral and regional trade agreements is hardly helpful from a business perspective. It leads to a confusing overlap of rights and obligations, including multiple rules of origin, that increase the transaction costs of all firms, especially small businesses hoping to export. Because of the absence of uniform content requirements, it prevents the further integration of regional production — this at a time when global trade is increasingly driven by intra-firm transactions, strategic sourcing and transnational investments.

But perhaps the most dangerous aspect of a drift toward separate bilateral or regional agreements is the risk that they might solidify into exclusionary trading blocs. It is clear, for example, that failure to open the NAFTA to Chilean accession would send a negative signal to other would-be partners that the prospects for future entry are indeed limited.

Such a signal, moreover, could well reverberate beyond the NAFTA. Brazil has already launched a proposal to use the Mercosul common market as the cornerstone of a South American free trade area. As a means of breaking down barriers in the region, liberalizing trade, and drawing countries into an integrated economic space, Mercosul represents a bold and imaginative step forward, one which Canada welcomes. Nevertheless, it does not require much imagination to recognize that, faced with a closed NAFTA door, the countries of Mercosul would confront even greater pressure to carve out their own markets and to formalize their own distinct economic space.

We are at a critical juncture. When the countries of the Western Hemisphere gather at the Summit of the Americas in Miami, what shall we say to one another? Shall we give impetus to the movement toward a new trading order both for the Western Hemisphere and for the world — one which signals that we are in the vanguard of economic liberalization beyond the Uruguay Round, that we know where we are headed, that we are committed to building the most open, dynamic market in the world? Or will North and South America again go their separate ways, as they have done to our mutual detriment in the past? As in all matters of trade, the answer for the Western Hemisphere will ultimately depend on whether we have the will to ensure that our common interests transcend our individual differences.

The Miami Summit offers Western Hemisphere countries the opportunity to articulate an overarching trade and investment policy for our region: one which reflects the openness, energy, and dynamism of our economies; and one which fundamentally embraces all countries willing to commit to more intensive, more comprehensive rules-based trade.

The NAFTA could provide the foundation for such a project. With the political will, it could, under a new name, be the base for a free trade association that could in time include countries throughout the hemisphere and beyond. It could emerge as a new kind of economic association, one defined, not by geography, but by a collective commitment to deeper levels of free trade: the nucleus of a new global GATT-plus. The underlying idea would not be to replace the existing multilateral system — still less to set up a discriminatory regional bloc — but to establish a coalition of countries willing to move further and more quickly toward the goal of trade and investment liberalization.

Why view the NAFTA as a building block for further trade liberalization in the Western Hemisphere? Because the original three NAFTA partners made a commitment to "open regionalism" — the idea that this agreement should be open to all countries prepared to accept its rules and disciplines. Through the accession clause, the NAFTA has the flexibility to incorporate additional countries individually or "groups of countries." Why not use the NAFTA as a bridging mechanism to all other free trade initiatives in the region — the G-3, the Andean Pact, and especially Mercosul?

Both Canada and Mexico have already signalled their desire to move quickly on NAFTA expansion in the Western Hemisphere. This position was highlighted at two recent meetings, which Prime Minister Chrétien had, first with the Chilean Minister of Finance and Trade, Eduardo Aninat, and subsequently with Mexican President-elect Ernesto Zedillo. Although it is critical to get Chilean accession right, there is no reason why, in time, all countries that agree to abide by the NAFTA rules and disciplines should not be welcome in a free trade area. The only "acid test" of membership should be a commitment to submit to the disciplines of genuine free trade and a willingness to work together to push the trade and investment agenda forward.

Such an evolution of the NAFTA could in turn have implications far beyond the hemisphere. It would show other countries that refuse to address our market access and market reform objectives that, in addition to our prime commitment to the new World Trade Organization, this hemisphere has a long-term strategy and a clear policy direction.

As most would agree, trade liberalization and domestic economic reform go hand in hand. And nowhere in the world is the drive for economic reform and liberalization more vigorous and more revolutionary than in this hemisphere. Brazil has recently provided a good example of this trend, and the recent election of Fernando Henrique Cardoso bodes well for the future.

Faced with a clear choice in last month's elections, between integrating into the world economy — with all its challenges and opportunities — or withdrawing into a predictable, but shrinking national cocoon, Brazilians chose to embrace the world. Anyone who believes in trade and economic liberalization must feel, as I do, that this election marks a major step forward for Brazil.

A new currency, tight monetary and fiscal policies, price deregulation, and the slashing of import barriers have already produced tangible results for Brazil. Inflation, which was running at about 50 per cent a month in the spring, is now down to two or three per cent a month. Real GDP [gross domestic product] growth should reach four per cent this year, and five per cent next year.

Brazil's privatization program and other reforms have attracted extensive private investment. And its domestic energy has already found further expression in an aggressive, outward-looking trade and investment policy. Brazil's average tariff rate has dropped from over 65 per cent to 14 per cent and the ban on imports competing with domestic production has been revoked.

Many familiar walls have fallen and many more will have to fall for economic reform to succeed. Although I understand that such reforms are not painless and that the adjustment period can be challenging, the rewards should be great. The prospect of seeing this great country mobilizing its assets and abilities is indeed exciting — I could feel the energy building when I was in Rio Grande do Sul and São Paulo three months ago.

But what does this all mean for Brazil-Canada trade and investment? As natural allies, middle powers in the new world, and old friends, these developments should enable Canada and Brazil to rekindle a relationship which — at times — has suffered from economic shocks.

However, our robust and dynamic commercial relationship stands as evidence that we can trade together to our mutual benefit.

There is no doubt that recent market liberalization policies implemented by Brazil and the proposed opening to foreign investors of key sectors of interest, such as telecommunications and mining, have put Brazil back on the map as a prime investment location and leading commercial partner.

Brazil is Canada's second-largest trading partner in Latin America. Canada's exports to Brazil have steadily increased and are increasingly diversified in the 1990s. This is especially due to the market liberalization program introduced in 1990. In the years ahead, we expect to see a significant increase in two-way trade.

Canada and Brazil have been commercial partners since the 1890s, when the company which became Brascan introduced the first horse-drawn tram system in Rio, and later introduced electric power and telecommunications services to both Rio and São Paulo. Since then, Canadian investment in Brazil has grown to over $3 billion. Now is the time to augment this relationship with even greater investment in each other's growing economies. To that end, I invite our Brazilian guests to think of Canada when thinking of the NAFTA market.

Our stable economic conditions, highly trained labour force, and our unique knowledge of and access to the U.S. market combine to make Canada an attractive investment destination for Brazilian entrepreneurs.

Brazilians who purchase manufacturing facilities in Canada, or who are partners with Canadian firms to add value to Brazilian goods in Canada, will see the output of these ventures qualify for full NAFTA treatment. This translates into freer and lower tariff access to the important United States and Mexican markets than exporters would have directly from Brazil. In turn, this is good business for both Canada and Brazil, a way that Brazilian companies can today take advantage of the NAFTA agreement, to build strategic alliances for tomorrow's more open global marketplace.

The year 1995 could mark the beginning of a new era in Canada-Brazil trade and economic relations. There is so much that can be achieved bilaterally by working together in taking advantage of new trade and investment opportunities unleashed by Brazil's economic reforms and our own strong economic performance. There is also much that can be achieved by working together toward the economic integration of the Americas.

It is with this in mind that Prime Minister Chrétien will lead a trade mission to Brazil, Argentina and Chile in late January 1995. The significance of this visit in both political and economic terms cannot be understated. The visit will underline in unequivocal terms that Canada belongs to the Americas. Canada is committed to deepening its relations with all countries in the region. Canada can play a direct role in hemispheric affairs and Canada is an important and friendly trade and economic partner. A notable feature of the Prime Minister's trade mission will be the participation by a number of small and medium-sized enterprises, but both new and experienced exporters will find that the Prime Minister's visit will serve as a catalyst for new sales, new joint ventures, business partnerships and new investments which will generate jobs and growth for both Canadians and Brazilians. I hope to see many of you in the mission, developing new business with the incredibly dynamic Brazil and its neighbours.

Thank you.