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TO EXPAND NAFTA

Andy Clark/Reuters/Bettmann



From left to right, the four amigos: U.S. President Bill Clinton, Canadian Prime Minister Jean Chrétien, Chilean President Eduardo Frei and Mexican President Ernesto Zedillo, after the announcement that Chile would be welcomed into NAFTA.

At the conclusion of the Miami Summit of the Americas on December 11, Canadian Prime Minister Jean Chrétien announced that Chile had been invited to join the North American Free Trade Agreement (NAFTA).

Flanked by the leaders of the United States, Mexico and Chile, he said, "For one year now, we have been the three amigos. Starting today, we will become the four amigos."

Chile's accession to NAFTA will help pave the way for other countries to join, the Prime Minister said, and expansion of trade throughout the hemisphere will lead to increased prosperity and the elimination of poverty. Canada has worked for the past year to convince the U.S. of the benefits to all the partners of an expansion of NAFTA.

Canada's Trade Minister Roy McLaren said in a November speech to the Halifax Board of Trade that "NAFTA was conceived originally not as a closed or inward-looking bloc but as an open, dynamic arrangement—an association of countries willing to move further and

faster toward the goal of free trade. Canada joined the NAFTA in the expectation that it would remain...an agreement fundamentally open to all countries prepared to accept its common rules and its disciplines."

The Miami Summit, Mr. McLaren said, represented "an opportunity to articulate an overarching trade and investment policy for the Americas—a larger, bolder vision that could serve to overwhelm more parochial and divisive concerns and avoid a welter of conflicting trade rules and practices."

Preparatory talks between Chile and its prospective trade partners will begin in January 1995, and full-scale negotiations will start no later than May. It is hoped that Chile will become part of NAFTA by the beginning of 1996.

"Chile is prepared for this negotiation," said President Eduardo Frei. "It will open up a huge horizon of opportunity for our country. This agreement also should unleash an historical process for the entire hemisphere."

The 34 nations present at the Miami Summit agreed to work towards the

creation of a free-trade zone from the Arctic to Argentina by 2005. There are many existing free trade agreements in the hemisphere, including NAFTA, and negotiations will initially focus on harmonizing them. Trade ministers from the member countries of the Organization of American States will meet before the end of May to analyze existing trade agreements to see where compatibility exists.

Because of its economic and political stability, Chile was widely considered the Latin American country most ready to join NAFTA. It has transformed its economy in recent years by controlling inflation, privatizing state-owned industries and dropping barriers to investment, and now has one of the most dynamic economies in the hemisphere.

President Bill Clinton said that "Chile will be an ideal partner. This agreement is proof of our serious intention to complete the Free Trade Area of the Americas within 10 years."

Canada already has strong economic ties to Chile. It is that country's second largest source of foreign capital with commitments for more than \$4 billion of investment, mostly in the mining sector. Two-way merchandise trade between Canada and Chile totalled \$421 million in 1993, an increase of 18 per cent over 1992.

Canadian trade with the 17 countries of Central and Latin America has increased rapidly in the last few years, reaching \$10.3 billion in 1993.

In 1994, the first year of the NAFTA agreement, Canada's trade with the U.S. increased by 12 per cent after nine months over the same period in 1993, and its trade with Mexico increased by 21 per cent.

As part of an effort to expand Canada's economic and political relations with Latin America, the Prime Minister will lead a business delegation to six Caribbean and Latin American countries, including Chile, Brazil and Argentina, in January.

All figures are in Canadian dollars. The official noon exchange rate on January 10 was US\$1 = C\$1.4125.

SOCIAL SECURITY REFORM

Canada has begun a comprehensive effort to improve the effectiveness of its social programs while restraining their spiralling costs. In 1994-95 the federal government will spend almost \$40 billion on social programs, not counting support for senior citizens and health care.

Human Resources Minister Lloyd Axworthy launched a wide-ranging public debate in October with the release of *Improving Social Security in Canada*, a discussion paper that presents options for fundamental changes to federal spending on unemployment insurance, social assistance and post-secondary education. Health care and pensions will be reviewed separately.

Mr. Axworthy told Parliament that Canada's social security system is "no longer in tune with a quickly changing world....(It) should create opportunity, not dependence. It should invest in people, not programs. It should encourage mutual responsibility, not overreliance on the system. It should put people's needs first."

In proposing the creation of "a new social pact," Mr. Axworthy said the government has three major goals: helping Canadians find and keep jobs; supporting society's most vulnerable people, particularly children living in poverty; and making programs more cost-effective and affordable. The minister said the discussion paper is not only about changing programs but about changing the way government works. "The most effective role of government is to put resources into the hands of people and let them make choices."

Canada's social safety net took shape during the Depression and Second World War and expanded during the prosperous 1960s and 1970s. While parts of the system have evolved considerably, its "fundamental approach has remained fairly static—to furnish basic income support to people and families in need, supplemented by an array of government services." The discussion paper outlines some specific areas in which the system traps people in a cycle of dependence. For example, provinces are prohibited from using federal social assistance funds for training, job creation or literacy programs. People on welfare who find jobs have 75 per cent of their income taxed back, and the disabled must declare themselves unemployed to receive benefits.

Canada's social security programs have also become unsustainable fiscally,

Mr. Axworthy told Parliament. Combined spending on Unemployment Insurance and social assistance has grown as a proportion of Gross Domestic Product from 2.7 per cent in 1972 to 4.8 per cent in 1992. The discussion paper makes clear that "the reform of social security must take place within the fiscal parameters required to meet the government's target of reducing the deficit to 3 per cent of GDP by 1996-97."

Unemployment Insurance

Unemployment Insurance (UI) was introduced by the federal government in 1942 and expanded significantly in 1971. The program was originally designed to provide temporary assistance to workers between jobs and to pay for itself through premiums from employers and employees. Workers in areas of high unemployment qualify after working for a shorter period, and they receive higher payments.

As unemployment rates have risen, the number of long-term unemployed people has also increased significantly. Almost 40 per cent of those receiving Unemployment Insurance in 1993 had claimed benefits at least three times in the previous five years. Costs to employers and employees will reach \$17.2 billion in 1994, with an expected deficit of several hundred million dollars that the federal government must make up.

To put the UI program back on a sound financial footing and to make it fairer and more responsive to the needs of workers, the government is proposing a two-tier system. Frequent claimants would receive lower benefits than those who make claims only occasionally, but they would get more training and help in finding a job. The paper also discusses options to reduce costs and make funds

available so that premiums can be cut to encourage job creation and child care programs improved. These options include reducing benefits, increasing the minimum number of weeks required to qualify and raising the premiums for industries with frequent layoffs or seasonal unemployment.

Welfare

The federal government shares the costs of welfare with the provinces and territories through the Canada Assistance Plan (CAP), which pays for food, shelter and special needs such as wheelchairs.

The federal government also provides a Child Tax Benefit under which low-income families receive up to \$1,020 for each child under 18 and all families with incomes under \$65,000 get some assistance with the costs of raising children.

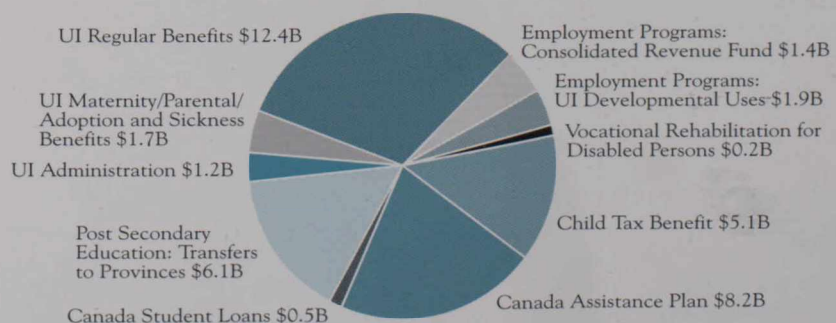
Spending on CAP has almost tripled in the last 12 years, from less than \$3 billion to more than \$8 billion annually. The Child Tax Benefit costs more than \$5 billion a year.

The paper presents options designed to make welfare more flexible and more targeted to the most needy, including replacing CAP with an annual grant to the provinces which they could use to design their own welfare systems. Other options include redirecting some of the money now spent on CAP and the Child Tax Benefit so that the neediest families get more, increasing the supplement for the working poor, changing the rules to allow people with disabilities to work, and targeting more support for children through nutrition programs and counselling for parents.

Education

Canada spends more of its national income on post-secondary education and training than any other country.

Federal Expenditures on Social Security Programs 1994-1995



Total: \$38.7 Billion (1994-1995)

Source: Human Resources Development Canada

All universities and colleges are publicly supported.

The provinces have jurisdiction over education and set student fees. University students pay about 20 per cent of the costs of their education through tuition fees, which average \$2,500 per year. Most of the rest is paid for by tax dollars. The federal government pays roughly half the costs of post-secondary education, about \$8 billion per year, mostly through cash grants and tax transfers to the provinces.

The discussion paper proposes shifting

more of the costs of post-secondary education to the students who benefit directly by putting a portion of the money the federal government transfers to the provinces towards an expanded student loan program. Repayment schedules would be tied to income after graduation. Other proposals are aimed at making education more accessible for people throughout their careers to help them upgrade their skills and respond to a changing economy. One such option would allow people to withdraw money for education and training from tax-

deferred Registered Retirement Savings Plans (RRSPs).

The Process of Reform

Using the discussion paper as a focus for debate, the House of Commons Standing Committee on Human Resources Development is conducting public hearings in every province and territory. After the committee issues its report in early 1995, the federal government will begin negotiations with the provinces, leading to the introduction of legislation in Parliament.

STRENGTHENING GUN CONTROL

On November 30, Justice Minister and Solicitor General Allan Rock announced a new firearms control program that will require registration of all guns, ban all assault rifles and many handguns, impose harsher penalties on those who use guns to commit crimes and crack down on smuggling.

"Canadians believe strongly that they do not want a country in which people feel they must own a firearm to protect themselves," Mr. Rock told Parliament. "Canadians want, above all, to have a lawful and safe society in which the criminal misuse of firearms is dealt with severely."

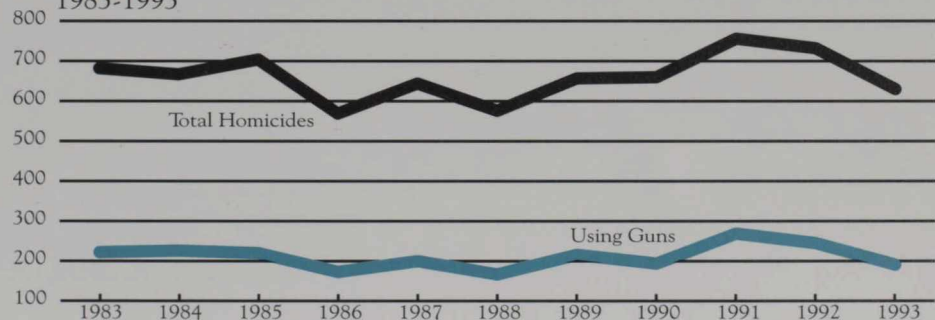
The new gun control package follows a thorough review of existing laws and an extensive period of consultation with Canadians across the country. The government will introduce legislation to implement the plan when Parliament reopens in February.

Mr. Rock said the plan was developed in response to a disturbing trend towards violence by firearms. Five Canadians a week are victims of homicide by firearms, he said, and one woman is shot to death every six days, usually in the home.

The current gun control system prohibits some firearms such as fully automatic weapons and sawed-off shotguns, and restricts others, including all handguns, that must be registered. Long guns such as rifles and shotguns used for hunting are not restricted. Some 1.2 million guns in Canada are registered, out of an estimated total of 6 million.

The "foundation for all the (gun control) strategies we will undertake," Mr. Rock told Parliament, is mandatory registration of all firearms and their owners on a new national computer system. In order to encourage registration, which will begin on January 1, 1996, fees will initially be under \$10 and owners will have a grace period of several years in which to register. The Royal Canadian

Homicides and Guns in Canada 1983-1993



Between 1983 and 1993, guns were used in an average of 31.6 per cent of homicides in Canada.
Source: Canadian Centre for Justice Statistics

Mounted Police will run the system, which is being developed in cooperation with provincial governments and local police forces. The registration system will be used to control sales of ammunition and enforce prohibition court orders related to domestic violence.

The new laws will severely curtail the number and types of handguns available for sale in Canada. "We start from the principle that only those firearms that we agree as a country are appropriate for legitimate purposes should be available for private ownership," Mr. Rock said. Effective January 1, 1995, the importation and sale of handguns that have no legitimate sporting purpose is prohibited. These include all .25 and .32 calibre handguns and those with a barrel length of 4.14 inches or less, which account for almost 60 per cent of the handguns now on the market. To keep or acquire handguns, private citizens must demonstrate every five years that they have one of two legitimate reasons for owning one: as part of a collection or to be used for target practice.

The gun control program bans 21 types (over 200 individual models) of military and paramilitary rifles. There are almost 19,000 currently registered in Canada. Owners of military rifles registered as of January 1, 1995, will be allowed to keep them over their

lifetimes but may not sell or bequeath them. A number of recent-model assault weapons are banned outright and should have been turned over to police by January 1.

Hunting rifles and shotguns will not be restricted (although they must be registered) because, Mr. Rock said, "Canadians want our firearms laws to acknowledge and respect the legitimate interests of hunters and of farmers."

To balance the restrictions on gun ownership, criminal sanctions will be created or strengthened against 10 violent crimes. A new mandatory minimum sentence of four years in prison and a lifetime prohibition on possessing restricted firearms will be imposed on anyone who uses a firearm to commit robbery, attempted murder, kidnapping, manslaughter, sexual assault and five other crimes. There will also be mandatory minimum sentences for possession of a stolen weapon and possession of a loaded restricted weapon without a permit.

Stiffer penalties, up to 10 years' imprisonment, will be imposed upon gun smugglers. Border control will be tightened with improved enforcement, more inspections and permit requirements for cross-border shipments of firearms.

CANADA SEEKS TO IMPROVE U.N. CRISIS RESPONSE

Canada has begun an in-depth study of the United Nation's options for strengthening its ability to respond rapidly and coherently to emerging crises, including establishment of a standing UN military force.

Recent peacekeeping experience has highlighted the need for improvement, for example, in Rwanda, where the UN intervened only after the massacre of thousands of people, and troops were not deployed until months after they were officially committed.

According to a background released by the Departments of Foreign Affairs and National Defence, which will jointly oversee the study, its focus will be on operations and tactics, "given the virtually complete ad hoc nature of mounting today's peace operations" and the "virtual vacuum at the operational level in the UN system." The study will also examine political and strategic dimensions of crisis response and such non-military aspects of peace operations as preventive diplomacy.

A major option the study will examine is the creation of a standing UN military force that could be rapidly deployed. In addition to the feasibility and utility of such a force, the study will consider its command and control structure, the role of the Security Council, any necessary changes to the Secretariat and the effect of a UN force on the response to crises by regional organizations.

The first of three conferences of peacekeeping experts to be held as part of the study will take place in February at the new Pearson Peacekeeping Centre in Cornwallis, Nova Scotia. An international consultative group of diplomats, government officials, soldiers and academics will review the work in progress.

The study was first announced by Foreign Minister André Ouellet in a speech at the UN General Assembly last fall (see *Canada Quarterly*, October 1994). Canada will submit a set of practical recommendations based on the study at the 50th anniversary session of the General Assembly next September.

Developments in Rwanda and Haiti

In response to a UN request, Canada will send 120 military personnel to Rwanda in January to provide logistical support

to the UN mission there. They will replace 360 Canadian communications specialists who are leaving after a six-month tour with the mission.

As part of Canada's contributions to the restoration of democracy in Haiti, about 100 expatriate Haitians living in Canada and the U.S. are completing a special training session at the Royal Canadian Mounted Police academy in Regina, Saskatchewan, to prepare them to join a new civilian police force in their native country. They are expected to start work in Haiti early this year.

ECONOMIC UPDATE

According to Statistics Canada, real GDP grew by 4.7 per cent in the third quarter of 1994 over the previous year, and an average of 5 per cent since January, Canada's best economic performance in more than six years.

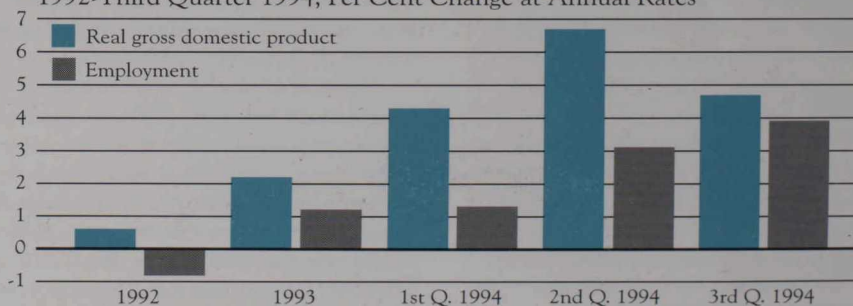
Inflation remains low. The consumer price index rose by 0.2 per cent at annual rates and unit labour costs declined by 2.1 per cent in the third quarter.

Consumer confidence was at its highest level in five years in the third quarter, strengthened by a sustained

growth in employment. The unemployment rate fell to 10.2 per cent in the third quarter, and dropped to 9.6 per cent in November, remaining steady in December. The economy created 431,000 full-time jobs in 1994.

Trade with the United States continued to expand in the third quarter. Canadian merchandise exports to the U.S. rose by 21 per cent over the same period last year, to \$133.6 billion, and imports of U.S. goods increased by 19 per cent to \$100 billion.

Canada's Growth in Real GDP and Employment 1992-Third Quarter 1994, Per Cent Change at Annual Rates



Source: Statistics Canada and Department of Finance

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