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CANADA AND THE WORLD

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CONTENTS

NOTE TO READERS: Our pages are numbered sequentially from the start of the year to facilitate production of a cross-referenced index that will accompany December's issue.

General Disagreement on Tariffs & Trade

Arthur Dunkel, the Geneva-based director-general of the General Agreement on Tariffs and Trade has a right to be concerned. Hercules in the Augean Stables that are the GATT, and faced with a year-end deadline for successful conclusion of the Uruguay Round, he seems less likely of success than the hero of old. The task of dealing with the prodigious output of King Augeas' 3,000 robust oxen pales in comparison with the task of bringing real consensus out of the current Multilateral Trade Negotiations.

Accusing some MTN participants of "playing hide-and-seek with each other," Mr. Dunkel has warned them that they are courting failure. Although there are still more than a dozen problem areas, the principal sticking point remains agricultural export subsidies and Canada figures prominently. To give it its due, the current Progressive Conservative administration in Ottawa has pushed vigorously for elimination of the increasingly vexing subsidies. However, a considerable amount of Canada's concern results from the fact that the subsidy war between the European Community and the United States has driven down world commodity prices and impacted heavily on Canadian producers.

A showdown had been building between the EC and the U.S., a confrontation that could result in all-out trade warfare and the destruction of the GATT, but it has been averted for now with the release of a potential compromise. Drafted by the Agricultural Negotiating Group of the GATT, which is chaired by The Netherlands' Aart de Zeeuw, the compromise document is designed to put a fine edge on the discussions with a view to slice through the potentially cataclysmic impasse. "The deadlock has been overcome," Mr. Dunkel opined, only to reiterate his warning that the issue is far from settled.

Intransigence at Either End

The gulf between the U.S. and the EC cannot be ignored, for it threatens to swallow up what little progress there has been since the Uruguay Round began in Punta del Este three and a half years ago. Deputy U.S. Trade Representative Julius Katz insists that Washington will continue to press for elimination of the trade-distorting subsidies. But the senior EC negotiator on agricultural matters, Guy Legras, is on record that the 12 nations of the Community are equally committed to export assistance as they struggle to establish and expand world markets for their produce.

Can Canada fulfill its rôle as "honest broker" in such a situation? Not likely. As sug-

. . . continued on page 74

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Disagreement . . .

. . . continued from page 73

gested, we are far from altruistic on this issue as we profess a desire to restore some equity to agricultural trade. Our hand is weakened by the administration's desire to retain the right to import controls on agricultural products, to protect the domestic marketing board regimes that control the production and prices of such produce as eggs, milk and chickens and to protect a system of effective floor prices for most others.

Pierre Blais, our junior Minister of State (Agriculture), accompanied by Germain Denis, the Assistant Deputy Minister of External Affairs responsible for the MTN, was in Geneva recently for talks with the chief Canadian negotiator, MTN Ambassador Gerald Shannon, and meetings with Messrs. Dunkel and de Zeeuw before the latter made his compromise public. He also met with Mr. Shannon's counterparts from the U.S., Australia, Japan, Switzerland and the EC as well as French agriculture minister Henri Nallet. Mr. Blais told Mr. de Zeeuw that Canada is willing to negotiate an agreement which would not only eliminate the export subsidies but also "clarify" Article XI of the GATT in line with a proposal Canada made March 14. Article XI would permit import controls necessary to Canada's supply management regime.

"Mr. de Zeeuw knows that we are particularly disappointed with the absence of any specific reference to Article XI . . . in his report," Mr. Blais said afterward. "However, Mr. de Zeeuw has assured me that his text — and more particularly Paragraphs 13 and 26 which deal with border safeguards and the strengthening of GATT rules — will permit negotiations to continue on Canada's proposal. . . . Moreover, Mr. de Zeeuw indicated that Canadian negotiators take every opportunity to reiterate to him the importance for Canada of Article XI and the marketing boards."

Cautious Optimism In the Middle

Mr. Blais also said he is convinced that Mr. Shannon's team would "continue to vigourously defend every aspect of the Canadian position." This position is seen as reflecting the basic challenge facing the GATT negotiators: maintenance of a balance between the interests of producers who depend on export markets and the interest of those who depend on their respective domestic markets.

The Houston Summit endorsed the need to cut subsidies (see Page 80) but the kind of resistance Ottawa is getting from the Canadian Federation of Agriculture is typical. The CFA argues that "Canadian farmers could have little or no internal support while other countries could continue to receive significant levels of support" and it urges negotiators "to ensure that the best interests of Canada's farmers are included in the final version of the GATT agreement." Skepticism, obviously, is warranted.

What the Uruguay Round is leading up to after four years of talk is possibly a kind of non-pact: a General Disagreement on Tariffs and Trade (GDTT). If that should come to pass, there is a real danger that a kind of economic Darwinism will prevail, that "survival of the fittest" among the emerging trade blocs will become the law of the trade jungle. That would be a no-win situation for everyone in the long term.

Notwithstanding the essentially lukewarm reception it received when he mooted it earlier this year, International Trade Minister John Crosbie's proposal for a new international trading body perhaps should be resurrected. When Canada and 21 other countries signed the GATT more than four decades ago, it was supposed to be an interim step toward an International Trade Organization. Instead, it has become an apparently permanent stage on which the players from the now 98 signatory countries seem to posture endlessly.

To be fair, however, even though the Uruguay Round is the seventh attempt to redefine the GATT, the 40-odd years that have passed since it was set up to bring order out of the postwar chaos have not been entirely unproductive. Earlier revisions have led to reduced tariffs on a broad range of manufactured goods and the drafting of guidelines as to what constitutes "acceptable" trading practices. Yet, after years of dispute that have reached an unpleasant nadir, the current mechanism has clearly bogged down, possibly irretrievably, on the question of agricultural exports. It may indeed be time to bury it and start anew.

Kenneth Pole is Associate Editor of International Perspectives

SIGNPOSTS

BRUSSELS - A total of $60 million over three years in special Canadian assistance for Bulgaria, Czechoslovakia, East Germany and Yugoslavia is designed to support democratic and economic reforms in those countries. It follows $72 million committed last year for similar efforts in Hungary and Poland. "Canada will help any Central and Eastern European country that has shown by its actions that it is genuinely committed to . . . reform," External Affairs Minister Joe Clark said. Departmental documents indicated that Canada is prepared, to work with Romania "when that country demonstrates consistent respect for human rights and the rule of law." Major components of the Canadian assistance are a political co-operation programme, trade promotion and support for economic restructuring.

OTTAWA - Canada is moving toward a simpler and more relaxed regime governing uranium exports. In a letter to producers, power utilities which have reactors and to relevant provincial governments, Energy, Mines and Resources Minister Jake Epp says "the commercial aspects of Canada's uranium export policy have evolved over the years with the primary objective of maintaining Canada's role as a reliable and competitive long-term suppliers . . . while seeking to obtain optimum benefits for Canada from the development of its uranium resources." Given that 85% of Canada's production is available for export after domestic demands are met, Ottawa is doubling to 30 years the maximum export contract term as long as domestic customers are supplied. Current policy also requires Canadian uranium to be upgraded to the fullest extent possible before export in a bid to maximize the value-added content while providing domestic jobs. Exemptions have been possible since 1969 and the intervening years have brought a gradual expansion of standard exemption criteria. Domestic upgrading to the maximum possible will still be required, but only "as long as Canada's conversion facilities have the capacity." Uranium destined for a United States utility will not have to be processed and exports also will be permitted when a Canadian processor is unable to bid competitively for the contract.

BEIJING - Canadian aid for China continues apace despite the still cool relations in the aftermath of Tiananmen Square. An Export Development Corp. loan to the Bank of China of US$9.8 million in support of a contract awarded to Klockner Stadler Hurter Ltd. of Montreal for design and construction of a plant for production of the solvent, carbon disulphide. Also, the Canadian International Development Agency is underwriting a $4.9 million Association of Canadian Community Colleges program to increase women's participation in China's economic development. Part of the four-year venture covers training for staff from the All China Women's Federation so as to improve its capacity to help women's groups in managing economic development. The other part is being used to establish a fund designed to support small projects that generate income, employment and learning opportunities.

OTTAWA — External Affairs Minister Joe Clark and former Employment and Immigration Minister Flora MacDonald have been absolved by the Supreme Court of Canada of any blame in a controversial immigration case. In the first such instance in Canadian history, they were convicted of contempt of court in 1988 by the Federal Court of Appeal after officials in their departments had failed to turn over a file by a judicially-imposed deadline. The case involved an Ontario woman's five-year fight to bring her husband to Canada from India; federal officials attributed the delay to their attempts to determine whether the couple's marriage was legitimate or was one of "convenience" to circumvent immigration law. The woman's lawyers and immigration officials tried unsuccessfully to get the relevant visa files from the high commission in New Delhi and the affair came to a head when the Federal Court ordered the files produced before a hearing in 1985. However, they arrived late and the woman's lawyers then initiated the contempt proceedings. In striking down the lower court ruling, the Supreme Court of Canada said last week that neither Mr. Clark nor Miss MacDonald, who was not re-elected in 1988, could be held accountable for violating a court order of which they were unaware.

SANTIAGO - An unusual foreign investment insurance policy issued by the Export Development Corp. is supporting a Placer Dome Inc. commitment to Chile's La Coipa gold and silver mine. The project is 50% owned by the Canadian firm with a further 40% held by another Canadian corporation, Consolidated TVX. Situated about 800km north of here, the mine has a 12-year production life estimated at 2.2 million ounces of gold and 114 million ounces of silver. An EDC agreement with the Washington-based multilateral Investment Guarantee Agency, an arm of the World Bank, will reinsure 35% of EDC's US$158 million policy, which will cover a variety of political risks. This is the first such reinsurance venture between the EDC and the MIGA.

OTTAWA - The Asia-Pacific Foundation is getting $10 million in federal funds that the government hopes will result in expanded trade with what is called the world's fastest growing market. It will enable the APF to establish Asian language and awareness programmes across the country, including support for curriculum development in secondary schools, subsidies for employees of smaller firms who want to acquire new language skills, seed money for university-level language and regional studies programmes, and recruitment and training of Japanese language teachers. Another part of the initiative is creation of a database that will provide businesses with a listing of Canadians with linguistic and other relevant skills. With offices in Vancouver and Montreal and plans for others in Canada and abroad, the APF was created by an Act of Parliament in 1984. It also receives funds from the provinces and the private sector. Canadian trade with the Asia-Pacific region amounted to $36 billion last year and is expected to rise by at least 50% in this decade.

TORONTO - Wood Gundy Inc. brokers say five years of sharply rising labour costs have cost Canadian manufacturers the competitive edge they used to enjoy over their competitors in the United States. A study by staff economists suggests that higher wages has aggravated the effect of the appreciation in the value of the Canadian dollar and that together they have outstripped the growth of productivity in the manufacturing sector. The data indicate that Canadian companies were at a 3.6% disadvantage compared to their American counterparts by the end of 1989.

OTTAWA - Five years after the federal government established a study group to look into the state of polar science in this country, it finally has introduced draft legislation to create a Canadian Polar Commission. Once passed by Parliament, Bill C-72 would give the new body the authority to foster development and awareness of polar knowledge and, according to Indian Affairs and Northern Development Minister Tom Siddon, would enhance Canada's international profile in this area of study. "There is a desire to develop a new co-operative ethic with our northern allies and neighbours," his department explains in background notes. "Canada is a major Arctic nation and should be a world leader in polar research and knowledge. Consideration must be given to providing a better focus and institutional support to enable Canada to maintain and improve polar knowledge and properly manage its northern and polar interests."

WINNIPEG - The rapidly-evolving and increasingly competitive nature of the international airline industry has promoted a special review by the Department of External Affairs and Transport Canada. A committee chaired by Winnipeg lawyer Marshall Rothstein, who specializes in transportation issues, has until next summer to review current policy and recommend changes that will enable Canada to capitalize on the new environment. "The trends of alliances of airlines, consolidation of the European Community in 1992 and the impact of new international trade agreements will have profound impacts," Transport Minister Doug Lewis says. External Affairs Minister Joe Clark says Canada can take full advantage of the 'emerging new patterns' only through "appropriate international aviation policies to meet our needs well into the 21st century."

OTTAWA - A National Energy Board move away from routine public hearings on applications for licences to export electricity to the U.S. has drawn criticism from native groups and environmental activists. "Exports and international power lines will normally be authorized by issuance of a permit without a public hearing," the NEB says in a memo to interested parties. "However, the Board may recommend that the (cabinet) designate certain electricity exports or international power lines for licensing or certificating." In determining whether to recommend cabinet intervention, the NEB would consider whether a proposal by one province would affect another, the environmental impact, and whether domestic customers for the electricity have been given "fair market access" to the proposed export. Critics argue that it amounts to removal of a valuable public constraint on unbridled development such as the second phase of the huge James Bay hydroelectric project in Northern Quebec.

WARSAW — The Canadian Wheat Board is paying at least $300 million annually in interest on money it borrowed to pay Canadian farmers for grain shipped to Poland. It was purchased in a series of deals in the mid-1970s and accounts for most of the approximately $2.7 billion that Poland owes Canada. The situation is not expected to improve, because the Polish government has confirmed that it is trying to have the outstanding debt rescheduled for a fifth time. "Many people in the West are demanding repayment," one senior planner admits. "We just can't meet all these demands." Canadian officials concede the unlikelihood of the situation improving in the near future.

TORONTO — Even though the Canadian dollar is at a 10-year high in relation to American benchmark, there are constant demands for a fixed exchange rate. Some proponents contend pegging the rate will help to insulate the Canadian economy from sector-specific shocks while others argue it would alleviate or even render unnecessary the economic pain of the Bank of Canada's tight monetary policy. The C.D. Howe Institute both theories, saying that if economic shifts are not allowed to move the nominal value of the dollar, they will produce price/cost changes with longer-run consequences. "Announcing a pegged value for the Canadian dollar is in no sense a substitute for discipline in the conduct of monetary policy." It says foreign exchange market instability reflects deeper economic uncertainties and policy failures. "More generally, monetary policy, lax fiscal policy and doubts about future responses to economic and constitutional challenges are among the root causes of fluctuations in the Canadian dollar. The attention of Canadians would more appropriately be given to dealing with these underlying problems."

OTTAWA — Three Canadian companies have been awarded a contract for a detailed environmental survey of the 21 active Distant Early Warning Line radar sites in Northern Canada. The United States Air Force awarded the work, through the Canadian Commercial Corp., to UMA Engineering Ltd. of Edmonton, Hardy BBT Ltd. of Calgary and Jacques Whitford Ltd. of Halifax. The results of the US$2 million survey, due by the end of the 1990-91 fiscal year, will facilitate decommissioning or downsizing of the sites, which stretch from the Alaska-Yukon border to the east coast of Baffin Island and which were designed in the mid-1950s to detect incoming Soviet missiles. Canada and the U.S. agreed in 1985 to upgrade the network with a new North Warning System; the first phase has upgraded eight DEW Line sites and the second provides for 36 unmanned short-range radar stations.

OTTAWA — As the federal government contemplates the privatization of Petro-Canada, created as a window on the oil and gas industry to satisfy nationalist sentiment, restructuring of the industry through takeovers and mergers continues to shift the ownership pattern. As a proportion of revenues that peaked at 47.9% in 1985, Canadian ownership rose to 44.9% last year from 44.3% in 1988, according to the Petroleum Monitoring Agency. Control on the same basis, having peaked in 1986 at 49.0% before slipping back, rose again last year to 36.1% from 1988's 35.0%. Total revenues last year were $50.2 billion, a rise of some 7% from the previous year's $47.0 billion, but net income plunged 39% over the same period, to $1.3 billion from $2.2 billion.

Time to Stop "Muddling Through" on Global Debt

It should be clear to anyone who takes the trouble to look that the international debt crisis poses a grave threat to everyone on this planet. It's a crisis that transcends mere geopolitical boundaries in an increasingly intertwined global economy. That said, substantial numbers of Canadians evidently still feel that it's mainly up to the debtor nations to solve their own problems. The latter is underscored by the results of a Decima Research Associates public opinion poll commissioned by the North-South Institute. They showed that 40% of Canadians has this rather insular perspective even though fully 80% of the same group of respondents felt that Canada should maintain its current levels of Official Development Assistance. "This suggests that there is little public understanding about the inter-relationship between the debt crisis and development," the sub-committee says.

The conflict is as real as it is apparent and possibly will become more so as the federal government increases taxes and skeptical Canadians look for ways to shift the burden. Where better than the debt-ridden Third World? Thankfully, a sub-committee of the House of Commons' standing committee on External Affairs and International Trade is trying to counter that viewpoint. While it says immediate action on Third World debt is "imperative", it says such action must be part of an overall agenda for action on North-South issues. This would be in contrast to the "muddling through" that has characterized the 1980s.

"Countries crushed by debt cannot trade more with us or contribute to a healthy global environment," the all-party sub-committee says in its report. The MPs avoided the mistake of recommending a single prescription for this global ill, recognizing that many individual debtor countries have equally individual problems. Nevertheless, they insist that there should be "strong common principles" behind Canadian policies on this issue. Policies should reflect, fundamentally, this country's "values of social justice, respect for human rights, and democratic participation."

The MPs go on to say that the primary goal of action on Third World debt must be sustainable human development and that where adjustment programmes are needed, they should be supported by reliable and adequate resources from donor countries and international financial institutions such as the World Bank. "But first, every means should be explored to reduce the debt service burden of old debt, including allowing debt repayments to be made in local currencies for investment in human development projects in the debtor country."

World Bank estimates put the accumulated debt of developing nations at more than $1.3 trillion. Massive lending and borrowing through the 1970s resulted in unmanageable burdens that persist for many countries. Many countries have watched helplessly as their creditworthiness has evaporated and their indebtedness threatens trade, political stability and the environment.

Scarce Resources Diverted

Debt-impaired governments worldwide are faced with using scarce resources to pay the immense carrying costs on their debts — let alone being able to draw down the principal — resources that were once used for health, education and social programmes. The United Nations Children's Emergency Fund reports that every passing week brings the death of more than 250,000 young children from normally preventable disease and malnutrition. And while the global population of children continues to grow despite this horrific toll, the proportion of the survivors who are being enrolled in primary schools in the Third World began to slide in the 1980s. Illiteracy is growing and those who are least able to protect themselves are affected most.

This serves to perpetuate, even aggravate, the vicious circle in which developing countries become ever more dependent on foreign handouts. As this pressure grows, the donor countries are forced to look more and more at their regular ODA to cope with emergencies. "Resolution of the debt crisis will let embattled governments begin again to operate their own social programmes," the sub-committee says. North-South co-operation would facilitate long-term policies.

In recommending, among other things, retention of the current 45% ceiling on commercial banks' reserves against problem sovereign debt exposure for tax purposes, the sub-committee says that banks should be able to claim additional tax losses when Third World loan assets are written down or sold in ways that reduce the debtors' load. "This should encourage faster, larger and more beneficial discounts on remaining commercial bank exposure." It adds that Canada should take the lead in advocating creditor governments' adoption of substantial export debt concessions, especially for the most seriously-affected countries. It further recommends that a new approach to determining eligibility for official debt relief is necessary, so there should be independent Canadian assessment of the debtor country's commitment to serious economic reform and to development that needs to be both equitable and environmentally sustainable.

There is tragic irony in that as history reshapes East-West relations, bringing these two "hemispheres" closer together and turning Eastern Europe into a magnet for western investment, the gulf between North and South widens. World Bank head Barber Conable has warned of the consequences of this, a warning the Canadian government would do well to heed. Developing countries trying to get out from under a mountain of debt that threatens to crush them obviously have little hope of competing with Eastern Europe. "The urgency of the debt crisis demands strong 'political will' on the part of Canadians and their government if we are to avoid an either/or situation," the sub-committee says.

In requesting a formal government response by the end of the year, the Members of Parliament on the sub-committee are "confident that Canadians will support strong actions by their government when they are able to understand those actions, and the mutual interests served by them." That, however, remains to be seen. The prognosis is not good and turning our almost xenophobic ethnocentrism around will be no easy task for a government that is already so low in the polls about its performance a home, never mind abroad.

The Islamic Republic of Iran: A New Horizon for Canada

Canada's trade with Iran suffered severely from the events that followed the 1979 United States embassy hostage crisis. By 1985, the volume of trade had fallen to an all-time low of $202 million from the decade-earlier $900 million. Today, Iran's market shows fresh promise in light of the latest policy developments there, including a new Five Year Plan.

Iran's priority has been real and full independence, even at the expense of isolation. Radically idealist politicians were driven by Ayatollah Khomeinei's exhortation that "we must become isolated in order to become independent." Although this should not be taken out of context, it indicates how sensitive Islamic Iran is to the question of any policy that might lead to dependency. It also explains Iran's caution in re-establishing relations with the West. Much more than a political upheaval, the revolution changed social and economic values as well as concepts of modernization and economic development.

These fundamental shifts affected dramatically, and even interrupted, some of the ongoing industrial projects, including those sponsored, or participated in, by Canada. Development will continue but only under conditions acceptable to Iran's revolutionized values as it not only rejects some aspects of conventional modernization but also works hard to eradicate all previous effects considered immoral. "In the past, a big house, a luxury car, a fat bank account, was the mark of values," President Hashemi Rafsanjani observed four years ago. "Today, the revolution has completely reversed this; these have become anti-values."

The idea of strict observation of Islam and confrontation with the outside world has not been shared equally by Iranian politicians. Although all decision-makers believe in a global Islamic order, their commitment to this has split them into idealist and realist factions. The idealists, who dismiss any relation with non-Islamic world, are no longer the sole foreign policy architects. They have lost ground to the realists, a development that has tempered Iran's foreign policy, particularly those with regard to trade, since 1986.

Also putting pressure on Iran's leaders to open the doors is the spread of sophisticated communications technology that brings in news of socio-economic development, fashion, arts, ideology, etc., from everywhere. This creates and expands demand for new goods and services.

It would be a grave error to believe that the post-Khomenei politicians in Iran are ignoring their new social values. The concept of an Islamic system that is neither a "pragmatist West nor a materialistic East" is very much alive. Nevertheless, Iran has made it clear that it is willing to co-operate with other countries and to import their technology at fair prices as long as the co-operation and trade does not threaten its independence and values.

An External Affairs trade official said more than a year ago that trade with Iran was "erratic." Is it still so? Not really. Iran's struggle for economic survival under the tremendous pressure and heavy burden of the war with Iraq as well as ongoing internal unrest is admirable to many economic observers. The disarray that followed the fall of the former regime, the exodus of thousands of badly-needed professionals and the interruption of oil production was aggravated severely by drought, floods and earthquakes.

Few Signs Of Economic Instability

Despite it all, Iran maintained some control over inflation and its deficit, even reducing government spending during the war. The 1986-87 report by the central Bank Markazi showed government spending falling from 2.49 trillion Rials in 1977-78 to 939 billion. The deficit ranged between 8 and 11% of Gross Domestic Product during the war, not too different from the year before the revolution.

Iran is paying its debt, estimated at more than $5 billion, and President Rafsanjani reported to the Majlis in February that the debt was down 37% from a year earlier. And, since 1981, inflation has always been below 25%, which could be argued as a rather acceptable situation for a country at war. Neither are there any of the other symptoms of economic instability.

Some non-economic factors might have affected Iran's reliability as a trading partner. The Salman Rushdie affair and allegations about Tehran's support for international terrorism are two examples. The former set back Iran's renewed efforts to establish better commercial ties with major industrial countries; having just normalized relations again, Canada recalled its ambassador early last year after the death threat against Rushdie. Nevertheless, the major industrial powers' continuous trade with Iran — West Germany and Japan more than others — is clear evidence of revolutionary Iran's capacity to be a reliable trading partner.

"Iran has never had any problem with its payment," says Guy Cadieux, a trade official with External Affairs. This viewpoint is shared by the Export Development Corp. and the Canadian Export Association. Companies selling goods to Iran receive a letter of credit drawn on Iranian Banks. Exporters can get the letter confirmed by the receiving bank with a premium of approximately 0.5%. The discounting rate is normally about 6%. Lloyds Bank, with its Canadian International Banking Centres, is the most active foreign bank in Iran, handling 90% of its trade with Canada. Bank Markazi guarantees the letters of credit issued to Canadian companies, paying interest on such financing. Canada's annual exports to Iran have fluctuated between $22 million (1981) and $300 million (1989) in the past decade. Mainly cereal grains, the trend is upward and, Saudi Arabia aside, Iran is Canada's largest Middle East market. Although exports to Iran are not a significant percentage of total exports, only 0.2%, recent growth is encouraging.

The volume of cereals exported to Iran has, in relative terms, soared. It reached $256 million last year from only $29.4 million in 1979, a trend that most likely will continue because of the new Five Year Plan that began in February. Within this framework, agricultural development has received only a small portion of the budget, $8.5 billion, so it is clearly not a priority. It is concentrating more effort on commerce, industry, and so on. So there will be no extra effort to produce foods even though the average annual population growth rate is forecast at 3.8%. This means more money allocated for food imports and, hence, more demand for Canadian cereals.

A review of Canadian merchandise exports to Iran over the past two decades indicates that there has been a gradual shift to food, mainly cereals, from end products. From 1975 to 1978, Iran imported an average of $100 million in Canadian end products annually, roughly two-thirds of total Canadian exports to Iran. This has changed dramatically. End products now account for a small portion while cereals are moving up to the 90% mark.

Petroleum drilling equipment is another growth market. Canadian companies now have their Iranian customer right in their own backyard, with the opening by Iran's Ministry of Petroleum of its Kala Naft office in Calgary last December. With a $1.2 billion annual procurement budget, Iran offers attractive potential for Canadian suppliers. Oil industry reconstruction, with a budget of more than $19.2 billion, has priority in the new Five Year Plan which means, among other things, new offshore oil and gas fields in the Persian Gulf.

Iran also may seek Canadian equipment and services in other sectors such as electrical generation, for which the Ministry of Power is planning to borrow $1.2 billion. This affords opportunities in consulting and engineering services as well as the supply of hardware. Other opportunities exist in Iran's transportation sector — tanker trucks, Tehran's massive Metro project, a new international airport — and in telecommunications.

Iran's shortage of skilled manpower and college graduates is a serious impediment to reconstruction. There were 300 applied field graduates for every 100,000 Iranians in 1986-87 as compared with 5,500 in Japan and 5,100 in the Soviet Union. Similarly, there were 600 technicians per 100,000 population compared with 600 per 25,000 in Japan. Iran is signing a contract to bring experts from various countries, so there is potential for Canadian consultants.

As for Canadian imports from Iran, crude oil has dominated the flow over the past decade, ranging from 72 to 98% of the total. Last year, Canada imported some $3.6 billion worth of oil, of which only 9% was Iranian. This is far below the all-time high of 25% in 1974 and there are indications that oil imports will continue to increase in the coming years. According to the Organization of Petroleum Exporting Countries, global oil demand will require OPEC production of 27 million barrels per day compared with only 22.65 million B/D in 1989. Notwithstanding the recently-announced OPEC production cuts to bolster prices, this means eventual higher oil production by Iran and increased Canadian imports. Non-oil imports, primarily fruit, nuts and carpets, rose from 2% in 1979 to a 1988 high of 27% and also offer potential.

The foregoing tends to support a statement by Mr. Cadieux that "the prospect for Canada-Iran trade is potent." Demographers estimate that Iran's population of 53 million could reach 85 million by the turn of the century. Feeding them presents an enormous challenge for a country where the constraints imposed by considerable semi-desert areas are compounded by the slow pace of postwar reconstruction. External Affairs estimates that $3 billion in imports of basic foodstuffs will be required by the year 2000.

Canada, which exported $3.7 billion worth of cereal grains in 1989, seems an eminently suitable match for Iran, which has 13.7 trillion cubic metres of recoverable natural gas reserves, larger than any except those of the Soviet Union. Its proven crude oil reserves are almost 93 billion barrels. More than an exchange of wheat for oil, it could include oil technology for oil. Iran must speed up its offshore operations to meet the hard currency goals set out in the Five Year Plan and Canadian companies obviously could capitalize on this.

Finally, Canada is Iran's gateway to North America and its reputation as a liberal country with no political interest in the Third World makes it an ideal trading partner for Iran.

Dr. Lagha Fanaian, an Ottawa writer/researcher, is a former associate professor of international relations at Tehran University.

FIRST-QUARTER COMPARISON OF CANADA-IRAN TRADE
(Discounting small special transactions)

Imports	1990	1989
Vegetables, roots & tubers	$ 1,000	——
Fruits, nuts & peels	2,692,000	2,587,000
Coffee, teas & spices	——	3,000
Prepared meat, fish, etc.	——	5,000
Prepared vegetables, fruit, etc.	946,000	82,000
Beverages, spirits & vinegar	2,000	7,000
Miscellaneous chemical products	2,000	——
Plastics & products	68,000	——
Books, newspaper, etc.	——	1,000
Carpets & textile floor coverings	2,339,000	2,089,000
Clothing & accessories	13,000	7,000
Tools, implements & cutlery	17,000	9,000
Boilers, machinery & mechanical appliances	56,000	8,000
Electrical machinery & parts	18,000	319,000
Motor & rail vehicles & parts	1,000	——
Optical & precision instruments	——	1,000
Art, antiques and collectors' pieces	89,000	138,000
TOTAL	**6,252,000**	**5,278,000**

Exports	1990	1989
Fruit, nuts & peels	$ 124,000	——
Cereals	25,696,000	——
Salt; sulphur; building materials	10,008,000	2,424,000
Minerals fuels, oils & products	1,691,000	——
Pharmaceuticals	931,000	82,000
Oils & resinoids; cosmetics & toiletries	——	7,000
Plastics & products	2,009,000	1,000
Rubber & products	179,000	——
Wood & wood articles; wood charcoal	——	176,000
Wood pulp & other cellulose	3,839,000	252,000
Paper, paperboard and related articles	1,994,000	——
Iron & steel & articles	10,193,000	149,000
Copper & Nickel & articles	40,000	116,000
Other base metals & articles	——	125,000
Tools, implements & cutlery	19,000	189,000
Boilers, machinery & appliances	1,511,000	2,990,000
Electrical machinery & parts	27,000	76,000
Motor & rail vehicles & parts	1,120,000	29,000
Aircraft & parts	——	9,000
Optical & precision instruments	620,000	419,000
TOTAL	**60,007,000**	**7,128,000**

DIPLOMACY

Canada Promotes Common Ground in London and Houston

Reprising Canada's traditional role as an "honest broker" in world affairs, Prime Minister Brian Mulroney figured prominently at the latest Economic and NATO summits. Common to both agenda was the Soviet Union with the question of direct western financial aid hotly debated in Houston and the emergent new order in Europe dominating the discussions in London.

Mr. Mulroney said that it was important for the G-7 group of seven leading industrial nations, in tandem with the European Community (EC) to pick on the "political and military signals" sent by the North Atlantic Treaty Organization to Soviet Leader Mikhail Gorbachev. "Where would we be if he got chucked out?" Mr. Mulroney has asked during a pre-Summit interview. "... We'll be considering an economic response not only to his concerns but to our own." West German Chancellor Helmut Kohl has suggested a $15 billion aid package. However, the United States has said the Soviets should first trim their defence budget and Japan wants to regain the northern Kuril Islands the Soviets seized after the Second World War.

On the second day of the Houston Economic Summit, the leaders committed their administrations "to working with the Soviet Union to assist its efforts to create an open society, a pluralistic democracy and a market-oriented economy." When the 16th annual gathering had ended, President George Bush lauded the "positive and unanimous conclusion" arrived at by his British, Canadian, French, Italian, Japanese and West Germany counterparts as well as the EC leaders.

At the close of the Summit, Mr. Mulroney said the answer to President Gorbachev's call for western support is resoundingly in the affirmative. "President Gorbachev's reform policies, if effective, will not only benefit his nation; they will advance the interest of us all," Mr. Mulroney said. "We know the alternatives. . . . We say 'yes' to the sustained dialogue he has asked for." However, instead of direct financial aid, the Summit yielded only a recommendation that the International Monetary Fund and other multilateral agencies such as the European Bank for Reconstruction and Development study the Soviet economy. The idea is to establish criteria for possible economic assistance. That does not preclude individual Summit countries from providing unilateral aid; External Affairs Minister Joe Clark is expecting that "there will probably be some announcements of fairly substantial actions. . . ."

For its part, as outlined by the Prime Minister, Canada is focusing on the provision of agricultural and export credits (having signed a $500 million letter of credit earlier this year) and through technical assistance agreements and programmes that will complement initiatives in the private sector. "Through dialogue and support, we can stimulate the kind of reform which will secure democratic principles and improved economic prospects," Mr. Mulroney said.

If there was a breakthrough in Houston, it was on the perennially contentious issue of agricultural subsidies (see cover story this issue, Pages 73-74). The leaders, hoping to restore some balance to this crucial economic sector, agreed to a U.S. call for reduced export subsidies. "It is important that each of us makes substantial and gradual reductions in support and protection of agriculture", the draft Summit communique stated, eliciting strong agreement from Mr. Mulroney.

The Levers Are Shifting

Dr. Sylvia Ostry, who has the Chair at the University of Toronto's Centre for International Studies, describes Houston as "very different" from earlier ones. It was "heavily dominated by a major political issue with economic implications" in contrast to the prevailing earlier focus on basic economic issues such as exchange rates, economic growth, trade, debt and such like. Also significant, she says, was the fact that the U.S. is "no longer the sole dominant country around that table." Chancellor Kohl had taken on new prominence, as had European Community President Jacques Delors. "It is no longer the Group of Seven. . . . The balance of power has dramatically changed."

As far as the strategic balance is concerned, the NATO Summit in London resulted in, among other things, a joint declaration of non-aggression by the western Alliance, new restrictions on the deployment of nuclear weapons and an invitation for Mr. Gorbachev to meet with the NATO leaders. There was a parallel proposal to evolve the diplomatically-obscure Conference on Security and Co-operation in Europe (CSCE), which has 35 countries as members, into a vehicle that would promote democracy. Mr. Gorbachev responded to the invitation for talks with his NATO counterparts with a seemingly casual comment that he is 'always ready.'

Still, there is no escaping the fact that the dramatic shift in the nature of the Alliance will impart strength to Mr. Gorbachev, who remains under pressure from conservatives within the Communist Party. His foreign minister, Eduard Shevardnadze, says the NATO measures "pave the way to a safe future for the entire European continent" and he added that Moscow attaches "extremely great importance" to NATO's foresworn use of first-strike action. Particularly welcome was Mr. Kohl's promise to limit the size of his military in a united Germany, a commitment that went a long way to relieving some of the pressure on Mr. Gorbachev and his reformers. The Soviet military and its hawkish Party allies tried to make the loss of Eastern Europe an issue at the most recent Party Congress.

"Now we can tell them they are wrong," was the reaction of Gennadi Gerasimov, the omnipresent official spokesman for the Soviet foreign ministry. As in Houston, Canada was front and centre and was seen as particularly influential in getting the various leaders to agree to an expanded role for the CSCE now that the military alliance's importance seems to be on the wane. A CSCE summit this fall in Paris is expected to begin the formal process of creating a parliamentary-style forum, a secretariat and an agenda. By any account, Canada played a "useful and constructive" role in the London discussions, which Mr. Mulroney says history would show as "an important turning point in Europe's history." His only regret was that it hadn't come about sooner and saved Canada from having to spend billions of dollars on its contribution to the security of Western Europe.

ENVIRONMENT

Setting Standards: Canada Puts Money Where its Mouth Is

It has been said here and elsewhere that by not having a solid legislative underpinning for its commitment to environmental issues, Canada was in danger of losing its credibility as it called for world-scale solutions to this world-scale problem. However, a series of initiatives at home and abroad represent major steps to restoring lost credibility.

Environment Minister Robert de Cotret has confirmed that Canada will eliminate production and ban the use of ozone-depleting chlorofluorocarbons (CFCs) by 1997, two years earlier than planned. It came only a few weeks after recommendations to that effect had been made public by the House of Commons' environment committee. He made his announcement at a conference in London where his counterparts and their officials from more than 100 countries were reviewing the 1987 Montreal Protocol for having the use of CFCs by 1997.

"Many countries, including Canada, acknowledged the 50% target . . . as simply a first step," Mr. de Cotret stressed. Before ratifying the Montreal agreement in mid-1988, Canada promised elimination by 1997. "It was then, and still is now, our belief that science and technology will give us the means to exceed our targets and advance timetables," he added. "We must, and can, accelerate our schedule without severe social disruption or, in the case of medical and fire safety products, without endangering the lives of our citizens."

He also pledged elimination of methyl chloroform (MCF), a degreasing agent in the metal fabrication and electronics industries, by the end of the decade and urged the conference to seek 85% global reduction over the same period. "Those of us in a position to take action have a moral obligation to future generations to do so," he said. "To be successful, however, our efforts must be shared by all nations. Developing countries must be provided with the means to participate." The upshot of that is a $10-million Canadian commitment to a $240-million (U.S.) international fund for Third World assistance.

On the bilateral front, a comprehensive Air Quality Accord is the goal of formal negotiations between Canada and the United States that are due to begin August 28 in Ottawa. Its announcement followed a meeting in Ottawa between Mr. de Cotret and his American counterpart, Environmental Protection Agency Administrator William Reilly. The accord is expected to establish a framework for managing not only the transboundary pollutants that cause acid rain but also such things as urban smog and airborne toxic materials. It also would create a mechanism for settling any complaints by one country against the other about alleged non-compli and could serve as a model for other bilateral or even multilateral agreements. Both are openly enthusiastic about the upcoming talks which should conclude in late October and which are expected to lead to a signed Accord by the end of the year. "A very major step forward" is how the Canadian minister describes the proposal. "We feel it is very much an historic moment." The EPA head says it should be one of the most comprehensive commitments of its kind by "any two countries anywhere."

Proposal Draws Predictable Criticism

If there is a sour note in all of this, it's that neither would say that the accord will lead necessarily to further reductions in acid rain emissions. Two Canadian activists were immediately critical. "We've got two countries with their own sovereign laws," Canadian Coalition on Acid Rain Co-chairman Michael Perley points out. "And they're saying that without a bilateral accord those laws may not be enforced? I've just never heard of that sort of pronouncement." Julia Langer of Friend of the Earth says the announcement diverts attention "from actually getting on with something."

Also bilaterally, several federal departments and agencies are collaborating with Canadian and American universities, the Ontario government and the National Aeronautics and Space Administration in a three-year field study to determine the role of methane gas in global warming. Produced by wetlands, cattle and rice paddies, methane is one of the so-called 'greenhouse' gases held responsible for a trend that scientists say could boost the earth's temperature by up to three degrees Celsius over the next half century with potentially catastrophic results in coastal regions and for agricultural countries. Canada's share of the programme is $3 million and part of the study will use satellites and special airborne equipment to scrutinize the extensive lowlands around Hudson Bay.

In the meantime, the Canadian Electrical Association and an arm of Energy, Mines and Resources have signed a five-year agreement that could lead to further reductions in emissions of carbon and sulphur dioxide and nitrogen oxides, principal constituents in global warming as well as acid rain. The $3 million deal between the CEA and the Canada Centre for Mineral and Energy Technology is expected to lead to development of new furnace processes. A government-industry panel also will look at relevant technologies in other countries.

Finally, there are the long-awaited reforms to the federal government's Environmental Assessment Review Process. The proposals, which eventually will put necessary legislation in place of a 1984 cabinet directive that is open to broad interpretation, are admittedly vaguer than expected, but Mr. de Cotret says the requisite regulations would be ready by the time Bill C-78 is ready to be promulgated into law.

"By far the most comprehensive in the world" is Mr. de Cotret's assessment of the initiative. It would entrench, for the first time in Canadian federal law, "the federal government's obligation to integrate environmental considerations into its project planning and implementation." However, possibly undermining our credibility as an environmental pace-setter — a role often touted by Mr. Mulroney and other ministers — ultimate responsibility rests not with the Environment Minister but with the minister whose department is directly involved in a project or programme. When this is broached, Mr. de Cotret counters that there are too many dangers in "over-centralizing." He also points out that federal funding or, rather, the withholding of it, can be used as a lever to ensure co-operation. Levers, on the other hand, are only of value when a government is willing to use them.

STATISTICS

International Trade

Having recovered in March, the merchandise trade surplus slid again in April because of a 5.9% drop in export and a 2.1% increase in imports. The exports slide was mainly in the automotive sector while energy products figured prominently in the imports. Subject to revision, the April surplus was $131.0 million, seasonally adjusted on a balance of payments basis. The latest preliminary surplus resulted from exports of $11,640.3 million and imports of $11,509.3 million. Cumulative exports for the first four months of 1990 amounted to $47,159.1 million or 1.7% below a year earlier while imports rose 1.3% to $45,309.1 million, yielding a surplus of $1.850.0 million. Here is a rounded breakdown in millions of dollars:

	APRIL			CUMULATIVE			Change
	Exports	Imports	Balance	Exports	Imports	Balance	from '89
U.S.	8,627.4	8,121.3	+506.1	35,137.5	31,207.1	+3,930.4	−564.4
Japan	651.0	680.0	−29.1	2,683.2	2,940.7	−257.5	−669.3
U.K.	287.7	380.0	−92.2	1,120.7	1,611.3	−490.6	+6.5
other EEC	656.4	865.9	−209.4	2,515.1	3,321.3	−806.2	−302.5
other OECD	231.7	424.4	−192.7	1,166.5	1,537.2	−370.6	+46.5
all others	1,186.1	1,037.8	+148.3	4,536.0	4,691.6	−155.6	+70.3
TOTALS	11,640.3	11,509.3	+131.0	47,159.1	45,309.1	+1,850.0	−1,412.9

External Affairs Budget

Finance Department figures show that the External Affairs share of the federal budget in April, first month of the 1990-91 fiscal year, down from a year earlier. However, this should not be interpreted as a trend because of fluctuations through the year. Total federal programme spending in April, exclusive of debt servicing costs, was $7.19 billion, of which $85.8 million or 1.19% was for the Department of External Affairs and related programmes. This compared with $94.7 million or just 1.39 of $6.82 billion in overall spending in April, 1989. Here is a rounded breakdown in thousands of dollars (since this is the first month of the new year, the last year's cumulative figures are shown):

	APRIL		F. Y. CUMULATIVE	
	1990	1989	1989/90	1988/89
Interests abroad				
Operating costs	22,396	20,344	665,201	598,700
Capital costs	245	117	85,136	67,682
Grants	3,929	5,172	204,933	186,960
Passport fund	1,827	852	−300	−3,972
APF*	—	—	—	500
World exhibitions	25	23	414	2,041
Sub-total	28,422	25,508	955,384	851,911
CCC*	571	2,148	15,275	13,535
CIIPS*	—	—	5,000	5,000
CIDA*				
Operating costs	5,604	5,396	97,749	94,202
Grants	25,025	50,457	1,551,397	1,743,762
Pymts to financial inst.	—	—	104,306	112,098
ICHRDD*	—	—	2,000	1,000
APF*	—	—	—	500
Debt forgiveness	—	—	671,599	—
Sub-total	30,629	55,853	2,427,051	1,951,472
Canadian Secretariat	30	—	989	—
EDC*	16,392	2,462	105,386	72,185
ICOD*	—	—	10,100	8,000
IDRC*	9,525	10,000	108,500	114,200
IJC*	201	213	4,740	4,353
OVERALL TOTAL	85,770	94,772	3,632,425	3,020,656

*Abbreviations used refer to the following:

APF — Asia Pacific Foundation
CCC — Canadian Commercial Corp.
CIIPS — Canadian Institute for International Peace & Security
CIDA — Canadian International Development Agency
EDC — Export Development Corp.
ICHRRD — International Centre for Human Rights and Democratic Development
ICOD — International Centre for Ocean Development
IDRC — International Development Research Centre
IJC — International Joint Commission

International Trade

The surplus rebounded again in May, thanks to a 4.8% increase in exports and a 0.1% slip in imports. The shift in exports was concentrated in United States markets, notably commercial motor vehicles as well as machinery and equipment. Conversely, there was a $153 million rise in automotive parts imports that was offset by a $171 million drop in energy product imports. Again subject to revision, the May surplus was $958.2 million. The latest preliminary surplus resulted from exports of $12,433.4 million and imports of $11,475.3 million. Cumulative exports for the first five months of 1990 amounted to $59,842.7 million or 0.8% below a year earlier while imports rose 0.6% to $56,793.9 million, yielding a cumulative surplus of $3,048.8 million. Here is a rounded breakdown in millions of dollars:

	MAY			CUMULATIVE			Change
	Exports	Imports	Balance	Exports	Imports	Balance	from '89
U.S.	9,210.1	8,091.7	+1,118.3	44,570.7	39,281.5	+5,289.2	−386.9
Japan	686.4	707.1	−20.7	3,342.4	3,664.1	−321.7	−651.4
U.K.	249.6	313.3	−63.7	1,377.5	1,897.5	−520.0	+24.7
other EEC	711.1	823.1	−112.0	3,250.1	4,142.2	−892.1	−186.9
other OECD	295.5	382.7	−87.2	1,479.4	1,932.0	−452.6	-110.3
all others	1,280.8	1,157.3	+123.5	5,822.6	5,876.5	−53.9	+525.9
TOTALS	12,433.4	11,475.3	+958.2	59,842.7	56,793.9	+3,048.8	−748.9

External Affairs Budget

The External Affairs share of the federal budget in May, second month of the 1990-91 fiscal year, rebounded above year-earlier levels. Total federal programme spending in May, exclusive of debt servicing costs, was $8.40 billion, of which $240.70 million or 2.87% was for the Department of External Affairs and related programmes. This compared with $123.68 million or just 1.68% of $7.34 billion in overall spending in May, 1989. Programme spending amounted to a preliminary $15.59 billion in the first two months of 1990-91, of which $326.47 million or 2.09% was External. The 1989-90 share was $218.40 million or 1.54% of $14.16 billion. Here is a rounded breakdown in thousands of dollars:

	MAY		F. Y. CUMULATIVE	
	1990	1989	1990/91	1989/90
Interests abroad				
Operating costs	51,291	45,785	73,687	66,129
Capital costs	1,294	1,917	1,539	2,034
Grants	15,958	5,466	19,887	10,638
Passport fund	543	1,123	2,370	−271
APF*	—	—	—	—
World exhibitions	39	25	64	48
Sub-total	69,125	52,070	97,547	78,578
CCC*	543	1,162	1,114	986
CIIPS*	1,000	1,000	1,000	1,000
CIDA*				
Operating costs	8,578	4,596	14,182	9,992
Grants	105,076	57,435	130,101	107,892
Pymts to financial inst.	15,411	—	15,411	—
ICHRDD*	—	—	—	—
APF*	—	—	—	—
Debt forgiveness	—	—	—	—
Sub-total	129,065	62,031	159,694	117,884
Canadian Secretariat	84	—	114	—
EDC*	30,455	3,682	46,847	3,682
ICOD*	500	800	500	800
IDRC*	9,525	5,000	19,050	15,000
IJC*	401	255	602	468
OVERALL TOTAL	240,698	123,676	326,468	218,398

*Abbreviations used refer to the following:

APF — Asia Pacific Foundation
CCC — Canadian Commercial Corp.
CIIPS — Canadian Institute for International Peace & Security
CIDA — Canadian International Development Agency
EDC — Export Development Corp.
ICHRRD — International Centre for Human Rights and Democratic Development
ICOD — International Centre for Ocean Development
IDRC — International Development Research Centre
IJC — International Joint Commission

LAST WORD

Arguments for a Canadian-American-Mexican Trade Pact

The United States of America and Los Estados Unidos de Mexico are finally about to embark on formal negotiations aimed at some form of free trade between the two countries. Some Canadians seem surprised that the U.S. might offer access to its market to any country other than us. Some even appear fearful of competition with Mexico for American markets. Overall, the concept of a U.S.-Mexico Trade Pact (UMTP) or a trilateral North American Free Trade Area (NAFTA) tends to be viewed with considerable apprehension.

Nevertheless, International Trade Minister John Crosbie, after a meeting in Toronto with U.S. Trade Representative Carla Hills, said he had told her that Ottawa "would want . . . to have Canada participate" in U.S.-Mexico discussions "if Canada felt it was in their best interest." He reaffirmed Canada's interest a short while later after Washington announced that the talks were on, but was disinclined to commit to Canadian participation until details had been announced. "Then we will be able to determine whether to observe them carefully or to take some other role," Mr. Crosbie said.

While the short-run fallout from a UMTP undoubtedly will include some trade losses for Canada, there is no shortage of evidence to indicate that Canada ultimately should join in a continental NAFTA. First, there is growing income in Mexico, which inevitably will result in growing demand for imports from other countries; advantages will accrue to those countries which have preferential access to the Mexican market. Second, a NAFTA makes sense from a Canadian perspective for purely defensive reasons: being outside a UMTP brings costs but no benefits. Third, the longer-term restructuring which will take place following a UMTP should involve Canada if longer-term benefits are to accrue. Finally, a freer trade zone in North America is plainly a worthy goal, especially given established trade blocs in Europe and emergent ones in the Pacific Rim.

Canada-Mexico direct trade at this point in our relations is comparatively small, $2.3 billion with a $1.1-billion surplus in favour of Mexico. Canadian exports to Mexico are dominated by manufactured goods (40%) and canola and meat products (25%). Imports from Mexico, meanwhile, are 75% manufactured goods. Some 82% of these direct Mexican exports to Canada already enter duty-free under various preferential tariffs. An unknown quantity of Mexican commodities also enter as component of U.S. goods that meet the rules of origin set out in the Canada-U.S. Free Trade Agreement.

Current Trade Flow Only Hints at the Potential

However, a small volume of trade is no reason to ignore the benefits of freer trade. The present flow of direct trade between Mexico and Canada is not a good indicator of what the situation would be if the two economies were more interconnected and the business communities in each knew that the other market existed. Mexico is poised for large increases in sustainable growth — with corresponding increases in imports.

Canadian exports to the U.S. are seven times as great as those to Mexico. While superficial examination of trade data indicates some overlap or competition between Canadian and Mexican firms in the U.S. market, in many cases the two countries export different products or to different regions of the U.S. Mexico is becoming an increasingly vibrant competitor with Canada and with other nations in U.S. markets, with or without a UMTP.

We are not debating at an academic level the benefits and costs of a NAFTA. The U.S. and Mexico are destined to forge closer ties than those they already have, so the only issue for Canada is to join or stay out. The latter option yields only potential losses. If Mexico and the U.S. sign a bilateral free trade agreement, the present impetus to the "silent integration" between the Mexican and American economies will gain strength. If we are not a party to such an agreement, we will have potential costs, such as some trade diversion in the U.S. market, but no potential benefits.

These potential benefits could be very large. Mexico has a population of 85 million and a substantial need for the kinds of products and services in which Canada has globally-acknowledged expertise: highways, telecommunications systems, electricity plants and agricultural development in addition to the production of tradeable goods and services. A UMTP does not shut Canadians out of the Mexican market, but it would provide a much greater incentive for American firms to invest and market in Mexico.

A UMTP will put U.S. firms at an advantage in Mexican markets. Canadian multinational corporations operating in the U.S. will enjoy this improved access. Canadian firms not operating in the U.S. or Mexican markets may lose the opportunity to share in Mexican growth.

In the longer term, as physical plants age, the locations of industrial production in North America will alter. There is no doubt that a UMTP or a NAFTA will impact Canadian industry in the long term. But impacts still will occur if we stay away from any connection with Mexico. As compared to the alternative — the U.S. having separate bipartite agreements with its northern and southern neighbours — there are likely benefits to Canada, the country with the smallest population, being part of a broader tripartite agreement.

Competitors come and go. We cannot grow and adapt as a nation by fearing to compete. Competition hones our skills, making us better. Trade improves our well-being. Mexico represents an opportunity. We cannot waste it by ignoring the possibility of forming a free trade zone that encompasses North America.

The opportunity is *now* and requires tripartite talks on the future of trade relations in what could be a single market of 350 million people, the size of the European Community. These talks must ensure, at a minimum, that a U.S.-Mexico agreement ultimately can be harmonized with the Canada-U.S. FTA to form a new continental trade bloc.

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