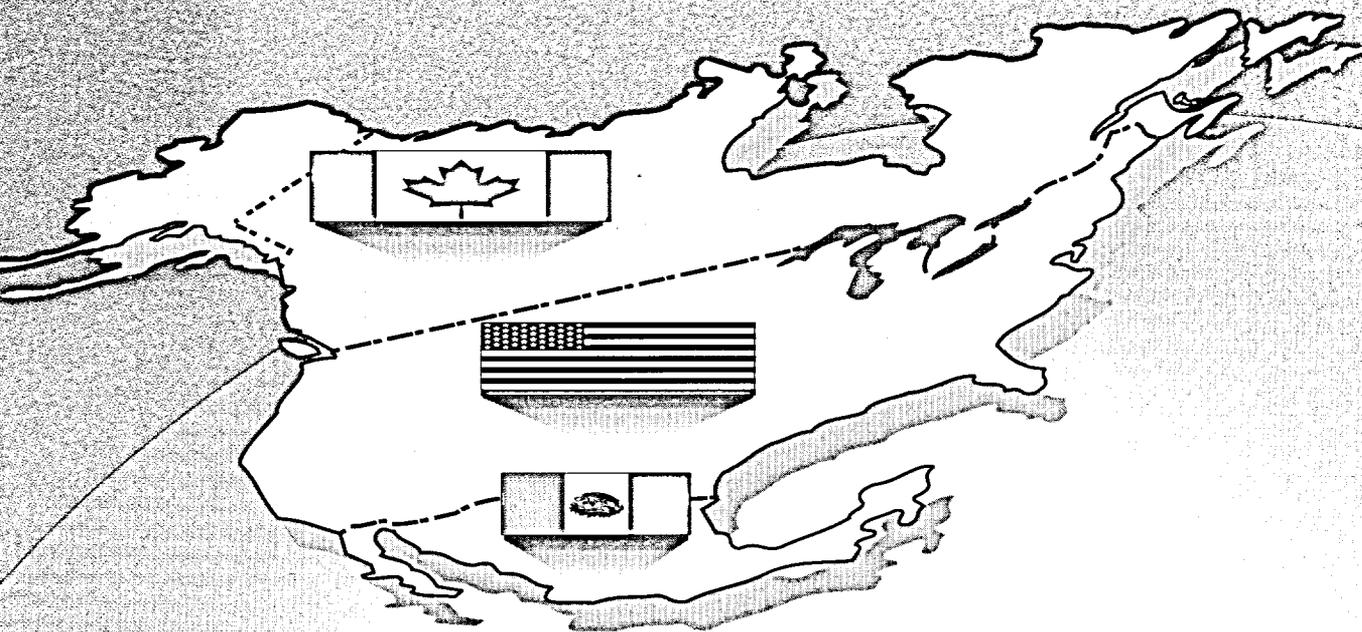


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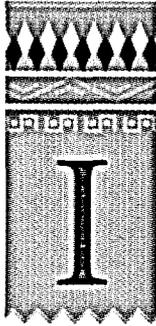
NORTH AMERICAN FREE TRADE

SECURING CANADA'S GROWTH THROUGH TRADE



External Affairs and
International Trade Canada

Canada



It seems that every time we turn on the news or pick up a newspaper, we witness another major change in the global economy.

Europe is being transformed by a chain of events that includes the creation of a single market in Western Europe by 1992, the reunification of Germany, and the momentous changes in the U.S.S.R. and Eastern Europe.

Closer to home, North America is just beginning to feel the effects of rapid changes taking place in Latin American countries such as Mexico.

Last summer, Mexico and the U.S. agreed to negotiate a free trade agreement. Over the summer, Canada also conducted preliminary consultations and studies.

We were persuaded that Canada should participate in the Mexican trade initiative. Why? An independent Canadian research group summed it up as follows:

By participating, Canada may gain greater opportunities to trade with a newly outward-looking 85 million-strong market.

By standing aloof, Canada risks losing growing Mexican trade to U.S.-based companies and losing investment to the United States because only U.S.-based firms would have tariff-free access to all three markets . . .

If Canada is to be constructively involved in the negotiations, it is important that Canada be involved from the beginning.

The C.D. Howe Institute

Last fall, we announced that Canada will participate in discussions with the U.S. and Mexico to achieve a North American free trade agreement.

Mexico is already Canada's largest market in Latin America, and we see exciting prospects on the horizon. The Mexico trade talks are an opportunity we cannot afford to miss.

This brochure explains Canada's interest in negotiating an agreement with Mexico and the U.S. to build a North American free trade market of over 350 million people. It also lets you know where you can get more information on this important trade initiative.

Over the coming months, we will continue to consult widely to ensure that Canada is prepared for the negotiations ahead.

John C. Crosbie
Minister for International Trade

43-250-891



CANADIAN OPPORTUNITIES IN THE MEXICAN MARKET

Many Canadians may not realize that Mexico has become Canada's largest market in Latin America. Trade between our two countries exceeded \$2 billion last year, and annual two-way trade is expected to more than double during the 1990s.

Until recently, Canada's opportunities in Mexico were limited by protectionist trade barriers. But now most of the obstacles that kept Canada's goods out of the Mexican market have been removed. The Mexican government has seized upon open markets and two-way trade as the best means to strengthen Mexico's economy.

In 1986, Mexico joined the world trading order, the General Agreement on Tariffs and Trade (GATT). In the past five years, the average Mexican customs tariff has decreased from over 25 per cent to around 10 per cent. Import licences and border restrictions have also been radically reduced, and Mexico has started to deal with its debt more seriously.

The President of the World Bank described Mexico's reforms as:

...one of the most ambitious, courageous and determined programs of economic reform and institutional change recently undertaken in any country.

Canadian exporters have been quick to seize the growing opportunities in Mexico. In 1989, our exports to Mexico increased by over 20 per cent. Some recent success stories include:

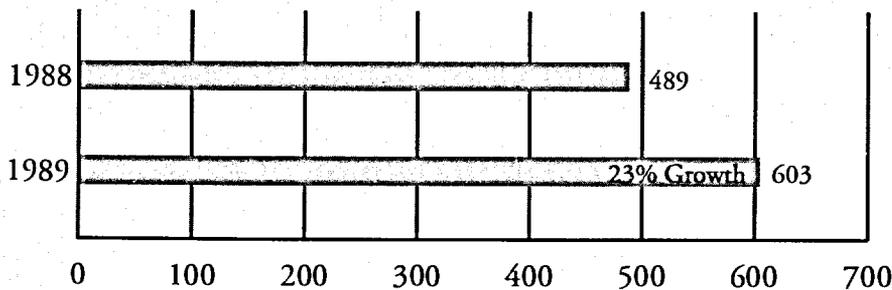
- In 1988, Northern Telecom's telephone equipment sales to Mexico were worth \$4 million. In 1989, sales were \$27 million. Sales for 1990 were estimated at over \$60 million and anticipated 1991 sales are over \$100 million.

- Mexico has only six million telephone lines to serve a population of 85 million. In the next five years, over \$10 billion will be spent on telephone equipment.
- A Mexican company has awarded Spar Aerospace a \$16 million contract for communications systems used in earth stations and satellite dishes.
- Air transport equipment sales are expanding rapidly. We have already sold Challenger jet aircraft and additional sales are anticipated in 1991.
- Mexico City plans to spend about \$100 million on public transit equipment. Canadian companies stand a good chance of participating in this equipment purchase and other contracts.
- Mexico must feed more than 85 million people. Canadian exports of dairy breeding cattle are rising and Canadian farmers anticipate further sales of other dairy and grain products.
- *Canadian Business* magazine recently reported:

For Canadian firms with engineering strengths, the opportunities in Mexico appear boundless. Beyond telecommunications and transportation, there is water irrigation, agriculture, the environment and utilities.

Canadian Exports to Mexico

(millions of \$ CDN)



Source: Statistics Canada.

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THE BENEFITS OF NORTH AMERICAN FREE TRADE

Canada is one of the world's leading trading nations. In 1979, we were the tenth largest exporter and importer of merchandise items in the world. By 1989, we had become the seventh largest trader.

Our prosperity depends on trade. Nearly half the goods Canada produces are exported. More than three million Canadian jobs depend on export trade.

The chart below demonstrates that Canada is a major exporter. On a per capita basis we export far more than countries with larger domestic markets such as Japan or the United States.

Increased exports mean more jobs for Canadians. This is why increased trade with Mexico is attractive to Canada.

To protect and promote our export trade, Canada needs free and secure access to foreign markets. That is why we negotiate international trade agreements.

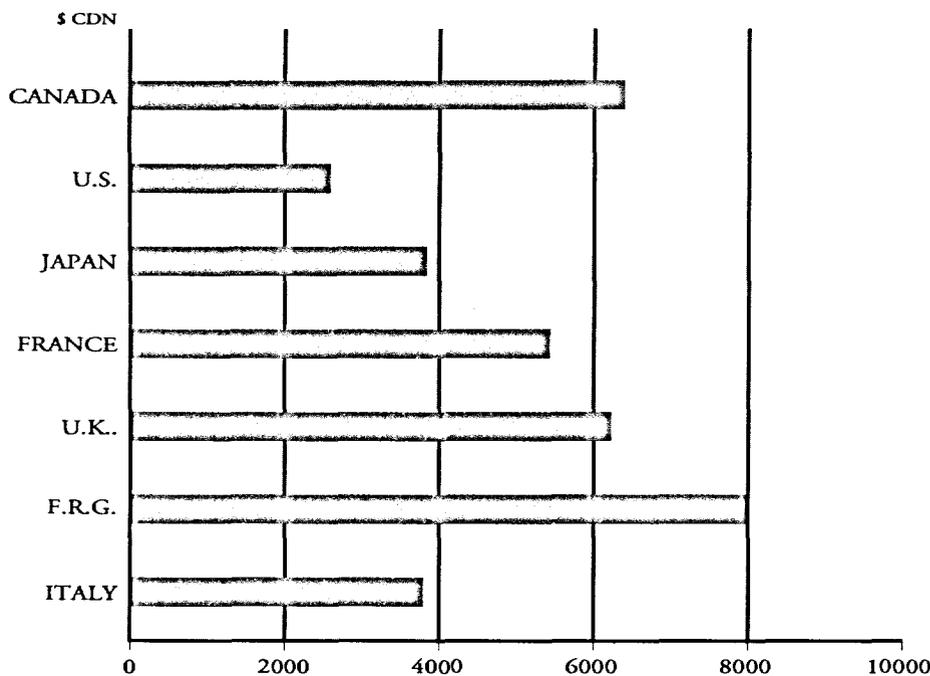
For example, Canada has always depended heavily on GATT to preserve an open world trading system. The Canada-U.S. Free Trade Agreement (FTA) is aimed at increasing access to our most important market.

Negotiating a free trade agreement with Mexico will create a North American market with a Gross Domestic Product of over \$7 trillion. This is larger than the European Community's 12-nation market.

A North American free trade market will benefit Canada in several ways:

- Increased trade will help the Mexican economy grow. Free trade with Mexico will enable Canadian companies to sell more of our products into this expanding market.
- In the past four years, United States trade with Mexico has tripled to US\$60 billion. It is in Canada's interest to be part of the Mexican free trade initiative to ensure that Canadian exporters get their fair share of the growing North American market.
- In the larger North American market, Canadian industries can invest and develop their technology and economies of scale. Canada can use the North American market as a springboard to increase our exports to Latin America and around the world.
- By offering investors access to North America, Canada will become an increasingly attractive location for investment and jobs.

Total Exports per Capita
(1988)



Source: IMF.

THE MEXICO TRADE TALKS — BUILDING ON THE CANADA-U.S. FREE TRADE AGREEMENT

The Canada-U.S. Free Trade Agreement has already been signed, sealed and delivered in Canada and the United States.

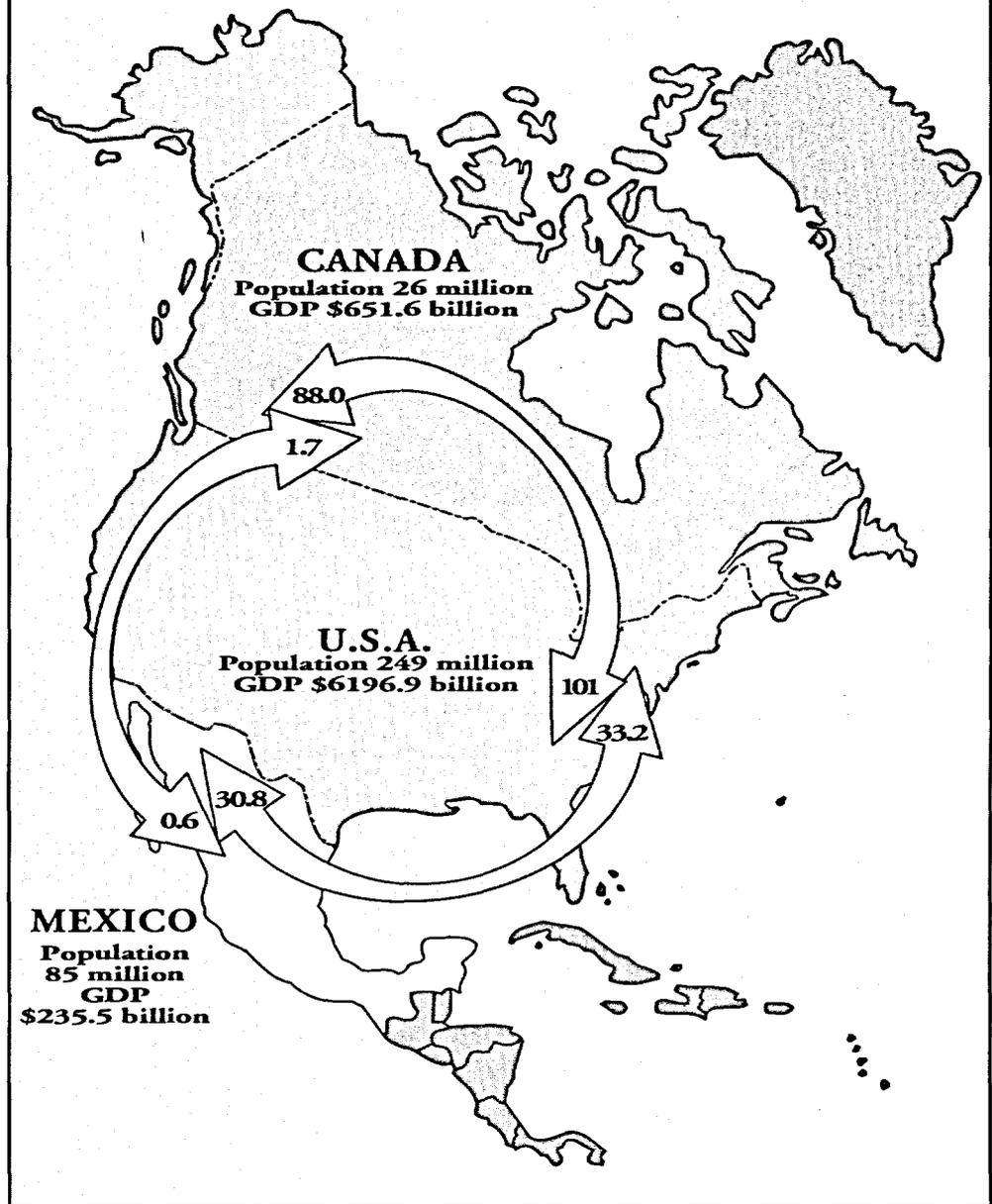
The Mexican trade initiative will build a North American free trade market that includes Mexico. What does this mean for the FTA?

The FTA can serve as a model in negotiating a North American free trade agreement. Canada is not obliged to renegotiate any provisions of the FTA. However, if it makes sense to alter any specific provisions of the FTA to achieve an expanded North American market, such changes can be considered.

CAN CANADA COMPETE?

History has established that Canada can compete. We have participated in every major trade negotiation since the 1930s. And we have benefited from these negotiations.

North American 1989 Trade Flows (\$ CDN)



Sources: Statistics Canada; U.S. Department of Commerce; IMF.

Each time Canada has proved that we can compete and trade with all countries, rich or poor.

In 1990, the highly respected World Economic Forum studied over 300 factors to determine the global competitiveness of the major industrialized nations. Canada was ranked in the top five, our human resources being one of our strongest assets.

Can Canada compete with the low-cost Mexican economy?

Yes. Canada is already competing with imports produced with low-cost Mexican labour. About 80 per cent of Mexican imports now enter Canada duty free. Certainly, our wages are higher. We can compete because we are highly productive and we produce quality goods and services others want to buy. Canada

can compete because wages alone do not determine competitiveness.

If low wages were the only factor in the equation, then high-wage countries such as Japan, Germany and Canada would not rank among the world's top exporting nations.

To maintain Canada's competitiveness in the 1990s, we must manage change rather than try to ignore it. One of the ways we can manage change is through innovative job retraining strategies and gradual adjustment programs.

For example, Canada's new Labour Force Strategy recognizes that our competitors are actively training their workers. We are therefore using \$350 million to train unemployed Canadians. Another \$100 million will be used to train people who are entering the job market.

Increasing our sales in the growing Mexican market will help Canada develop a more competitive economy. With an educated and productive work force, strategic location, and a state-of-the-art communications and transportation infrastructure, Canada will remain an attractive place to invest and create quality jobs.



Should Canada increase its trade with developing countries such as Malaysia, Zimbabwe, Poland, India or Mexico? The answer is, of course, yes.

Canada has international assistance programs and special programs to promote development around the world. Refusing to trade with Mexico will not help that country develop its living standards, or ours.

Nevertheless, some argue that we should not trade with developing countries like Mexico. Others say that a lower standard of living gives a developing country an "unfair" competitive advantage. We disagree.

First, trading with developing countries does not mean that we will either lose sales and jobs or be forced to adopt their lower standards.

As Canada has increased trade with countries in Asia, Eastern Europe and Latin America, our working conditions have improved and we have adopted better safety and environmental standards.

Likewise, international trade has created prosperity and enabled developing countries to improve their working conditions and safety and environmental standards.

Second, trade is a two-way street. For example, to improve its environment, Mexico must build more efficient public transportation systems, sewage treatment plants and

irrigation projects. With our proven expertise, Canada can play an important role in developing these high-technology projects.

Finally, if Canada traded only with countries that enjoyed our standard of living and social programs, we would not have many countries left to trade with. As Mexico's former Ambassador to Canada pointed out:

If you are not going to trade with anyone having lower wages than Canada, you are going to have to close your borders. Most of the world has lower wages than Canada.

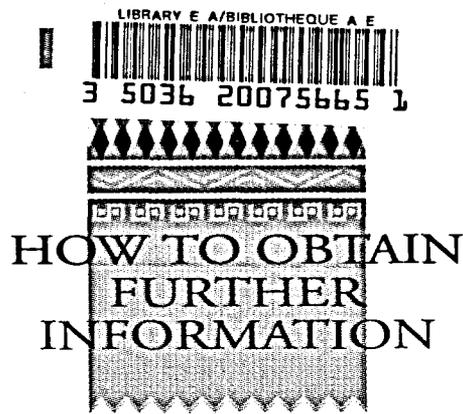


Last fall, the federal government announced that Canada would participate in trilateral free trade discussions with Mexico and the United States. Preparatory work is now underway.

Working groups have been formed and negotiations will begin later in 1991.

Meanwhile, the government will continue to consult widely and openly to ensure that Canada is fully prepared for the upcoming negotiations.

This brochure is designed to inform Canadians about the Mexico free trade talks. If you would like more information, please refer to the inside back cover.



As part of our initial consultation and study program, the following preliminary studies were prepared:

Canada and a Mexico-United States Trade Agreement
Department of Finance
July, 1990

Canada-U.S.-Mexico Free Trade Negotiations: The Rationale and the Investment Dimension
Investment Canada
August, 1990

North American Trade Liberalization Sector Impact Analysis
Industry, Science and Technology Canada
September, 1990

Canadian Participation in USA-Mexico Free Trade Discussions: Preliminary Agricultural Perspectives
Agriculture Canada
October, 1990

If you would like to receive these studies or any other information please write, fax or telephone your request to:

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