

for Quebec, is on side for this package. Plus, westerners are as tired of this debate as are Canadians elsewhere. A key question is whether the Reform Party will campaign vigorously against the deal, thus providing a focus for western opposition.

The coming campaign will undoubtedly be full of unforeseen twists and surprises. But the biggest surprise of all would be if Canadians pass up a historic opportunity to settle their constitutional future once and for all.

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CANADA AND NAFTA

by David Leyton-Brown

NAFTA (the North American free trade agreement) should not be evaluated in terms of the overall economic and political effects on Canada of free trade. Rather it should be judged in terms of the actual stakes for Canada in the negotiations — what Canada sought to achieve, and to avoid.

In the Canada-U.S. free trade agreement (FTA), which came into force in 1989, Canada pursued the anticipated benefits of increased investment, industrial restructuring, and economic growth resulting from (more) secure and enhanced access to the U.S. market, on which we depend for over 75 percent of our exports. However, Canada paid a considerable price in the negotiations for those benefits. Indeed, public disagreement over the balance between the benefits and costs underlay the federal election campaign

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of 1988, and the ongoing public debate about the effects of the FTA on Canada's economy and society.

Having entered into that complex of benefits and costs, Canada would have been severely disadvantaged if the benefits had been lost or diluted, without any reimbursement or reduction in costs. That would indeed have occurred, if the United States and Mexico had entered into a separate bilateral free trade agreement, giving Mexico, with its lower-cost labour, preferential market access comparable to Canada's. Furthermore, separate Canada-U.S. and Mexico-U.S. trade agreements would have created a "hub-and-

spokes" arrangement, whereby the United States would enjoy preferential access to the markets of both of its partners, but each of them would have only competitive access to the U.S. market, and a lesser degree of access to each other. In order to protect its interests, Canada could not afford not to take part in the NAFTA negotiations.

CANADA'S OBJECTIVES IN THE NAFTA NEGOTIATIONS

Accordingly, Canada entered into the NAFTA negotiations with the primary objective of preventing the erosion of the benefits achieved, and paid for, in the FTA. It also sought to achieve further benefits in terms of increased access to the U.S. market or improvements to the FTA, while resisting U.S. attempts to reopen "unfinished business" with Canada that it was unable to achieve in the FTA, or to push Canada for further concessions as the price for participation in NAFTA. Finally, it sought increased access for Canadian goods, services and investment to Mexico, which with the prospect of economic growth could in the long term be transformed into a major market.

THE IMPLICATIONS OF NAFTA FOR CANADA

In the light of these objectives, what then are the implications of NAFTA for Canada? Some modest improvements were made to the FTA with regard to access to the U.S. market (for example, government procurement), and most notably in clarification of rules of origin (for example, regarding definition of North American content). Efforts to worsen the FTA bargain in several areas were successfully resisted: the screening of new foreign acquisitions was maintained, at the same

thresholds; the exemption for cultural industries under the FTA was preserved; and Canada's agricultural supply management systems in the dairy, egg, and poultry sectors were exempted. Substantial barrier-free access to Mexico was achieved for Canadian goods and services, and for Canadian investment in financial and other sectors.

In some contentious areas, however, Canadian negotiators yielded to U.S. pressure, or at best simply moderated that pressure. The level of North American content required for automotive goods to qualify for duty-free entry to the United States has been raised, against Canada's wishes, from the 50 percent level provided in the FTA, to 62.5 per-

In short, NAFTA isn't perfect, but it could have been a lot worse. The alternative to NAFTA is not no free trade, but separate Mexico-U.S. free trade.

cent. This will advantage the big-three North American automobile producers, and disadvantage the Japanese- and Korean-owned automobile assembly operations in Canada, though it is argued that the newly clarified rules of origin will make the 62.5 percent content threshold easier to reach, and less subject to harassment. NAFTA provides

duty-free access only to clothing and textiles containing exclusively North American-made fibres and yarns, which denies Canadian apparel companies the opportunity to use (cheaper) imported fabrics. To offset this, Canada achieved an increase in the allowable quota for products not meeting this requirement, at least for the first five years. The dispute settlement provisions of the FTA remain, and are in some ways strengthened, but the commitment to negotiate a new system of rules on subsidies and countervailing duties within five to seven years has been replaced by a sense that the NAFTA system will be permanent.

In short, NAFTA isn't perfect, but it could have been a lot worse. The alternative to NAFTA is not no free trade, but separate Mexico-U.S. free trade. Because the least desirable outcome would have been a bilateral agreement that extended access to the U.S. market to Mexico without any compensating benefits to Canada, the Canadian bargaining position was not strong. Canada made some gains, and avoided some losses, but most important, it was part of the process.

There will again be intense political debate about the merits of free trade, but the real political battle this time will not be in Canada, but in the United States. In both countries, the key to economic success, as well as

to political victory, will be the provision of adequate and appropriate adjustment assistance, to ease the transition, and prepare workers, and therefore companies, for the more internationally competitive economic environment that lies ahead.

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