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## **Standing Senate Committee on Foreign Affairs**

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I want to begin by thanking the members of the Committee for the invitation to appear before you today.

The North American Free Trade Agreement (NAFTA) is now just a shade over a decade old. Its negotiation and approval by the legislative branches of the three member governments were accompanied by debate and deliberation that was, at times, highly passionate and deeply felt. In the decade that has followed, few public policy decisions have been subject to as much introspection and analysis as has been the case with the NAFTA. In the decade that has followed the agreement going into force, each of the three countries has had to adjust to changes that have come about as a direct consequence of the NAFTA. Other changes have also occurred but some of those are coincidental to rather than direct effects of the NAFTA. Some of the changes are good while other changes are more negative in character.

From the outset, it was always known that the weakest side of the NAFTA triangle was the side delineated by Canada and Mexico. Of the three sets of relationships, it goes without saying that Canada's priority was always that with the United States and the same was, and remains, true between Mexico and the United States.

Nevertheless, even on this front, we've seen some major developments. In 1994, the year that the NAFTA went into effect, Canadian exports to Mexico were just a shade over a billion dollars while Canadian imports from Mexico were \$4.5 billion. A decade later, Canadian exports to Mexico had more than doubled to \$2.2 billion in 2003, while our imports had tripled to \$12.1 billion.

Canadian imports from the United States in 1994 were \$137.3 billion which grew to \$203.1 billion in 2003. On the export side of the ledger, Canadian exports to the US were \$183.3 billion in 1994 and have since grown to \$327.6 billion in 2003. The total trading relationship between Canada and the United States is, thus, over \$530 billion a year.

On the United States – Mexican side of the triangle, we have witnessed an equally massive explosion of bilateral trade. In 1994, the United States exported a total of \$53.6 billion to Mexico while in that same year it imported \$51.5 billion from its southern neighbour. In 2002, the latest year available for US statistics, US exports had tripled to \$153.1 billion while imports had quadrupled to \$211.5 billion.

A view of the magnitude of the changes is given by considering trade within the entire NAFTA region. Taking all three countries together, the total value of trade in 1994 was on the order of \$431.1 billion. By 2003, the total level of trade among the three countries was \$909.6 billion – just a shade under a trillion dollars.

For an agreement that designed to reduce or eliminate barriers to trade and investment – and thereby help to increase overall economic activity – the NAFTA should be judged a success. Its commercial impact as measured by volumes and value of trade can and has been measured. As an agreement that influenced multilateral and regional

developments in trade policy, the NAFTA has also proven to be beneficial. Many of NAFTA's provisions and approaches were replicated in the Uruguay Round agreements that established the World Trade Organization. The NAFTA model has been replicated not only by Mexico but by Canada as well (particularly with Chile and Costa Rica) and more recently by the United States. The NAFTA has helped countless companies and other economic agents to increasingly think first in regional and later in global terms.

One thing that remains clear is the fact that the NAFTA continues to be a highly controversial subject. While the level of controversy does vary from country to country and sector to sector, it is clear that a broad consensus on its impact remains elusive. For example, in the United States, *Newsweek* magazine commissioned a poll<sup>1</sup> last week in which Americans were asked:

**"In general, do you think that free trade agreements like NAFTA (the North American Free Trade Agreement) and the WTO (World Trade Organization) have been a good thing or a bad thing for the United States?"**

	<b>Good Thing</b>	<b>Bad Thing</b>	<b>Mixed (vol.)</b>	<b>Don't Know</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
2/04	28	35	11	26

A decade ago, the United States approached the prospect of the NAFTA with mixed views. At the time, the division in public attitudes reminded many Canadians of our own domestic debate at the time of the Canada – U.S. FTA. On the Canadian side of the ledger, public attitudes have become more comfortable with the concept of trade liberalization which is probably a consequence of Canada's generally positive economic

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<sup>1</sup> Newsweek Poll conducted by Princeton Survey Research Associates, February 19 -20, 2004. The number of people surveyed was 1,019 and the poll has a margin of error of plus or minus 3 percent.

conditions in the last decade. The US, however, remains highly divided on both the general and specific issue of trade liberalization.

As we all know, this is the political season in the United States and individuals are seeking policy positions that differentiate themselves from each other. In this regard it is interesting that – at least within the Democratic Party – the trade issue (and NAFTA specifically) is what differentiates the campaigns of Senators Kerry and Edwards.

Elsewhere in the U.S. one can witness influential commentators such as CNN's Lou Dobbs who have taken to focusing the spotlight on the so-called "outsourcing" of America. Within the Administration, the same Administration that fought for and gained the so-called "Trade Promotion Authority", one can also sense hesitancy with respect to trade policy practice. The political impossibility of the United States to offer up the sort of reforms to its agricultural subsidy policies (along with a similar inability in the European Union) has effectively stalled the Doha Round of WTO negotiations and has also cast a large shadow over the Free Trade Area of the Americas negotiations. On the trade front, little can be expected to originate from our American friends at least until 2005.

Finally in Mexico, in one sense the magnet for people's views on NAFTA, we have witnessed successive governments (Salinas, Zedillo and Fox) where the trade liberalization philosophy has taken strong root. Following the NAFTA, Mexican diplomats exploded out onto the world stage – eager to negotiate bilateral trade agreements with partners large and small. Mexico, in this sense, has been the prime "exporter" of the NAFTA model which has been replicated in more than a dozen other instances.

Official policy along with Mexico's notable achievements notwithstanding, there remains a deep feeling of resentment within Mexico that is directed at government policies such as the NAFTA. Liberalized market forces, including its international trading regime, have certainly helped Mexico. Today, Mexico is on par with Poland in terms of per capita income (roughly US\$9,146) but still a third of its North American partners. Mexico has become a more modern economy where services account for 68.3% of GDP, where industry accounts for 27.6% and where agriculture accounts for 4.0%. The comparable figures for Canada are 67.3% in services, 30.1% in industry and 2.6% in agriculture. In Mexico's case, however, it is in the rural / agricultural sector where the grinding levels of poverty and inequity remain the most visible and the deepest rooted. Rightly or wrongly, the continued inability to raise this sector above the levels of simple subsistence is attributed to public policies such as the NAFTA.

Across Latin America we see increasing signs of growing disenchantment with the philosophy of liberalization and reform. People throughout Latin America increasingly feel that they have made major sacrifices – and they have – but have received scant benefit. Their allegiance to government policies, including democracy itself, that ask for additional sacrifices is waning. Mexico is far from immune to either the philosophical winds that are blowing through the rest of Latin America or to the growing public disenchantment with the willingness and ability of governments to help address the problems that the people identify as of most concern to them.