



# North American Free Trade Agreement (NAFTA) Spells Economic Development For Canada

by *The Honourable Michael Wilson*

*Minister of Industry, Science and Technology and Minister for International Trade*

Since last fall some 10,000 Canadians from all walks of life - in over 180 communities, in every key economic sector, in learning institutions, in business associations - have participated in a major review of Canada's economic performance and economic future. This initiative was directed by an independent private sector Steering Group, led by David McCamus and Marie-Josée Drouin, which completed an Action Plan in late October.

The Steering Group initially set out to assess our performance in five critical areas: learning, science and technology, financing growth and innovation, improving the competitiveness of Canada's internal marketplace, and trading smarter. The 54 recommendations of October's Action Plan focus upon encouraging the creation of new opportunities by building an innovative society; improving our education and training systems and building a new learning culture for Canada; and the establishment of a more inclusive society, where all Canadians have a chance to share in the opportunities that innovation brings.

One major thrust in creating opportunities is trading smarter in new and traditional markets to capture an increased share of global trade, technology, and investment flows. This reflects some unique Canadian circumstances. We are the world's eighth largest economy, with only the 31st largest population. One in four Canadian jobs depends on trade. We need to export. And to export success-

fully, we need competitive goods and services. We also need access to other countries and fair rules of the road.



the GATT and successful completion of the Round ranks as our number one priority in trade policy. As the GATT aims for further cuts in tariffs, and a broadening of the rules to cover agriculture, services and intellectual property, the stage is set for new gains in trade and prosperity — worldwide.

Trading smarter not only means improving our ability to compete, but capitalizing on new opportunities in international markets created by the FTA and the NAFTA.

Recent developments on world currency markets — and slower-than-anticipated-growth in the world economy — have tended to obscure the very real benefits Canada has realized to date from the free trade agreement with the United States:

In the past three years, 19 of 22 Canadian industries increased sales to the

*The Honourable Michael H. Wilson is Minister of Industry, Science and Technology, and Minister for International Trade in the government of Prime Minister of Brian Mulroney, with overall responsibility for coordinating the government's policies to improve the competitiveness of the Canadian economy. He is chairman of the Cabinet Committee on Priorities and Planning, Operations, expenditure Review and Canadian Unity and Constitutional Negotiations.*

*Mr. Wilson holds a Bachelor of Commerce degree from the University of Toronto.*

## **NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)**

NAFTA needs to be seen as one modest though positive element in a broad trade strategy. It builds on the Canada-U.S. Free Trade Agreement to create a free trade area throughout North America. But it also lends impetus to successful completion of the Uruguay Round of world trade talks under the General Agreement on Tariffs and Trade (GATT). Canada has been one of the strongest supporters of

United States (exports of drugs, miscellaneous chemicals, plastics, wool and other yarns, clothing, electrical machinery, railway equipment, aircraft and spacecraft components and furniture, all posted large percentage increases). Our merchandise trade surplus with the United States was \$13.9 billion in 1991. An all-time export record of \$75.5 billion was set in the first half of 1992. Not only has the volume of our trade with the US increased, so has the quality. The C.D. Howe Institute has found



that the big winners in Canadian exports to the US have been high-tech equipment (telecommunications, office, and precision equipment) and business services. Since the FTA, there has also been a sharp increase in foreign investment activity. The cumulative net foreign investment into Canada from 1989 to 1991 totalled \$16.7 billion. In 1991 alone, net foreign investment into Canada amounted to \$5.9 billion.

### **THE NAFTA WILL BUILD ON THESE GAINS**

Canadian goods, services and capital will gain barrier-free access to Mexico -- one of the most promising economies in the world -- on an equal footing with the United States. It will encompass a market of 360 million consumers -- larger than the 12 countries of the European Community -- with a combined total output of \$7 trillion.

Revamped rules of origin narrow the scope for disputes over differing interpretations. The NAFTA gives customs authorities clearer guidance in administering the Agreement, with procedures to redress grievances.

New rules on duty drawback give Canadian manufacturers greater flexibility in using input from non-NAFTA sources and claiming credit for duties paid when these are incorporated in manufactured products exported to other NAFTA countries.

Bilateral review of anti-dumping and countervailing duties has been made a permanent feature of the NAFTA. Dispute settlement provisions have been strengthened.

Inclusion of land transport in the Agreement will allow Canadian truckers to organize their international traffic more efficiently.

Canadian inventors, creators and researchers gain greater protection from the addition of intellectual property to the NAFTA.

Extension of cross border services to specialty air services should open interesting new opportunities in the United States and Mexico for high-tech companies specializing in aerial surveying and mapping, and similar export-oriented sectors.

The NAFTA provides for better access to government procurement of goods, services and construction in all three coun-

tries. The scope and coverage of procurement opportunities available to Canadian companies under the NAFTA increases from \$20 billion under the GATT and the FTA to \$70 billion.

### **THE MEXICAN MARKET**

Under the NAFTA, Mexico will reduce investment restrictions in dozens of sectors. Disputes between investors from a NAFTA country and a NAFTA government can be settled through international arbitration at the investor's request. This will give Canadian investors in the United States and Mexico added confidence and security.

It's time now to begin exploring new opportunities resulting from the markets opening up through the NAFTA in 1994 and beyond:

Some 70 per cent of Mexico's 85 million consumers are under 30 years of age. This growing young urban population -- enjoying higher incomes generated by a growing economy -- shows a marked preference for imported consumer products. Such imports totalled some \$7.5 billion in 1991. Good prospects for Canadian business in this sector include soaps and toiletries, jewellery, furs, medicinal and pharmaceutical products, toys and games, sporting goods, books, stationery and related products, tableware, giftware and furniture;

Mexico annually imports more than \$5 billion in agricultural and food products. Given our complementary climates, Mexico will remain an important market for Canadian grains and oilseeds. Higher incomes and growing urban populations are creating demand for specialty foods such as cookies, biscuits, frozen and microwavable food products, bottled water, convenience and snack foods;

Mexico's auto parts market is the fastest growing in North America and the government has embarked on a program to upgrade airports, railways, roads and public transit;

Petroleos Mexicanos (PEMEX) -- Mexico's state-owned petroleum company -- plans to spend as much as \$23 billion over the next four or five years. Mexico imports much of its industrial machinery and technology. By 1994, demand is expected to exceed \$6 billion. Canadian products are well accepted. This sector includes machine tools, metalworking equipment, plastics production ma-

chinery and equipment, materials handling and similar production equipment and technology;

By 1994, the telecommunications market in Mexico will be worth \$1.5 billion and the market for computers and computer software should grow even faster;

Anti-pollution equipment and services will be in demand as Mexico's private sector responds to the enforcement of stricter environmental regulations. Mexico will import most of the equipment and services needed for industrial and municipal waste-water treatment, potable water treatment and air pollution control;

Both by privatizing much of the banking sector and by opening the market to foreign participation, Mexico recognizes the need for more modern and flexible financial services. The Canadian financial services industry -- with its extensive experience in the region -- is well placed to participate in the opportunities created by the NAFTA;

Mexico presents other opportunities in wood and paper products, tourism, hotel and restaurant equipment, medical instruments and equipment, safety and security-related products, apparel, laboratory and scientific instruments, management and financial consulting services, educational and manpower-training services, construction equipment and building products, printing and graphic-arts equipment.

### **HOW CAN ECONOMIC DEVELOPMENT PROFESSIONALS HELP?**

Economic development professionals can do their part by:

Helping firms in your area explore joint ventures and strategic partnerships in the United States and Mexico. Firms should be encouraged to develop strategies suited to different products in selected markets. Offer flexible financing. Build on the experience of transnational firms already operating in Latin America. Promote longer-term business relationships;

Encouraging the organization of seminars that include presentations by successful exporters to the United States and Latin America. These success stories can be invaluable in gleaned tips that will help companies in your community become effective exporters to the United States and Mexico;



Encouraging local firms to participate in trade fairs and exhibitions. External Affairs and International Trade Canada (EAITC) carried out 121 trade missions and participated in 143 trade fairs throughout the United States in 1992-1993. The department also organized 22 trade missions focusing on Mexico, Colombia, Chile and Venezuela — and participated in 14 trade fairs in Latin America during this period;

Making sure local firms make full use of the federal government's trade, technology and investment programs. Small-and-medium-sized firms particularly should be encouraged to take advantage of the Program for Export Development (PEMD) covering up to half the eligible expenses to participate in a variety of trade promotion activities. The Investment Development and Going Global Investment Programs provide international investment and strategic partner match-making services to Canadian firms. New Exporters to Border States (NEBS) and New Exporters to the U.S. South (NEXUS) respectively help Canadian companies expand into selected markets in U.S. border states and to broaden their U.S. sales beyond one regional market;

Directing firms to one of the 12 International Trade Centres across Canada providing hands-on assistance and training to companies needing help to enter export markets;

Making extensive use of the resources available through our Embassies and High Commissions abroad. The Economic Developers Association of Canada (EDAC) has joined EAITC and Investment Canada in supplying Investment Counsellors to key locations around the globe. Further strengthening ties between federal government and municipal economic development professionals can only serve to ensure more effective work by all these networks.

Canadian companies are already sizing up the opportunities that the NAFTA can provide. In the first six months of 1992 alone, some 4,450 Canadian entrepreneurs contacted our Embassy in Mexico City -- up from 2,200 for all of 1991. More than two-thirds of the 206 Canadian companies -- mostly small-to-medium-sized firms -- were first-time visitors to Mexico at Canada's largest solo trade show in Latin America at Monterrey Mexico. Their efforts produced \$2.9 million in on-site

sales and another \$80 million in sales projected into 1993. Their capacity to operate in Mexico and Latin America was very much on display.

Perhaps its worth remembering that Canadian investment and technical expertise brought electricity and tramways to several Latin American cities -- and developed mines in Peru. The development of many Latin American countries owes much to Canadian names such as Montreal Engineering, the M.L.W. Worthington locomotive company and resource companies such as Noranda and Alcan. Brascan was for many years synonymous with Canada's presence in Brazil.

Today, Northern Telecom, Novatel, Bell Canada, Petro-Canada, Cominco, Inco, Noranda, Bombardier and Moore are just some of the Canadian companies carving out market niches in telecommunications, energy, mining, forestry, transportation, industrial process technology, machinery and systems, and other sectors.

All this suggests that NAFTA should be viewed as an opportunity to bring new investment into your community and your province as well. With secure access for our exporters both to the United States and Mexico, Canada will be on an equal footing in competing for investment in North America. Canada offers a number of advantages that make it a competitive location for investment. Good transportation and communications links, access to affordable capital, abundant energy resources, and an educated and highly-skilled work force are just some of our key competitive advantages.