

**NORTH AMERICAN FREE TRADE, PUBLIC GOODS, AND ASYMMETRICAL BAR-
GAINING: THE STRATEGIC CHOICES FOR
CANADA¹**

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ABSTRACT

A public choice perspective on a North American Free Trade Agreement (NAFTA) falls to capture the essentially political logic of the negotiations between Canada, the United States, and Mexico. States pursue political power as well as wealth. Whereas Mexico sought economic benefits from NAFTA, the United States was more motivated by geopolitical than economic interests. Canada's reluctance to accept NAFTA was due to the fact that Canadian politicians expected to achieve neither substantial economic benefits nor increased political influence under a trilateral free trade arrangement. However, a major cause of Canada's reluctance to join NAFTA talks falls outside the scope of systemic theories that assume states are unitary actors: political instability reduced Canada's bargaining horizon and lowered its motivation to pursue a mutually beneficial outcome.

RESUMEN

Una perspectiva de política pública sobre el acuerdo norteamericano de libre comercio no captura la lógica esencialmente política de las negociaciones entre Canadá, México y Estados Unidos, puesto que estos estados-naciones actúan diferencialmente en búsqueda tanto de beneficios económicos como poder político. Desde esta perspectiva, la renuencia de Canadá a aceptar el acuerdo se puede explicar por la siguiente razón: los políticos canadienses no vieron en un acuerdo trilateral de libre comercio la posibilidad de realizar beneficios económicos significativos o la manera de obtener mayor influencia política. Sin embargo, una causa principal de la renuencia de Canadá a participar en las negociaciones del Tratado de Libre Comercio queda afuera de la esfera de teorías sistemáticas que presumen que los estados-naciones son actores unitarios: la inestabilidad canadiense ha reducido la capacidad de este país a aspirar a un resultado mutuamente benéfico.

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¹ Financial assistance for this research was provided by a grant from the Social Sciences and Humanities Research Council of Canada. I am grateful to Fen O. Hampson and an anonymous reviewer of the journal for comments on this article.

Introduction

IN the mid- 1980s, Canadian officials decided to protect Canada's major export market through bilateral bargaining with the United States. Canada and the United States signed a Free Trade Agreement (CUFTA) in 1988. Shortly afterward, in June 1990, Presidents George Bush and Carlos Salinas de Gortari announced their decision to pursue a comprehensive free trade pact. Canadian politicians reasoned that CUFTA should be protected from any erosion of its benefits by seeking a seat at the bargaining table. Moreover, under a "trilateralized" agreement, Canada would profit from the medium to long-term expansion of the Mexican economy. On February 5, 1991, Canada announced that it would enter into formal negotiations with Mexico and the United States aimed at signing a North American Free Trade Agreement (NAFTA).²

Yet, it would be hard to grasp the importance of NAFTA negotiations were only "gains from trade" at stake. Current bilateral trade between Canada and Mexico is extremely modest (Hart 1990: 7). Canadian trade with Mexico is less than ten percent of U.S.-Mexican trade. In an analysis of the implications of freer trade with Mexico, the Canadian Department of Finance observed that:

Canadian exports to Mexico in 1989 were worth \$605 million (less than half a percent of total Canadian exports; 17th most important Canadian export market). Our 1989 imports from Mexico totalled \$1.7 billion, which represents just one percent of our total imports, the current average rate of duty on dutiable imports from Mexico is 10.6%. However, given that many Mexican goods are eligible for preferential rates under Canada's Generalized System of Preferences (GSP) for developing countries, and a large number of products already enter duty free, the average rate of duty on all imports from Mexico is 2.4%. The short term trade impact of increased access to the Canadian market for Mexican goods would appear to be limited (Department of Finance 1990:7).

Likewise, the United States International Trade Commission (ITC) found that free trade with Mexico:

... would benefit the U.S. economy overall, but for two major reasons the benefits relative to the size of the U. S. economy are likely to be small in the near to medium term First, in spite of Mexico's population of some 88 million, as discussed above its economy is much smaller than the U.S. economy. Second, with few exceptions, both countries already have relatively low tariff and nontariff barriers to trade with

² "U.S., Canada and Mexico to Negotiate A North American Free-Trade Pact," *The Wall Street Journal*, February 6, 1991 :A7.

each other. A sizable share of U. S. imports from Mexico already enters the United States either free of duty unconditionally, under the Generalized System of Preferences (GSP), or at substantially reduced effective rates under maquiladora production-sharing arrangements (ITC1991: vii).

Clearly, the prospective short-term economic benefits of freer trade in North America do not provide a sufficient explanation of the motivation among politicians in Canada and the United States to negotiate a formal free trade agreement.

There is more at stake in NAFTA negotiations than trade. Geopolitical interests are an important factor. Canadian policy makers rightly saw United States support for NAFTA in terms of political and strategic—rather than purely economic-objectives. For example, the United States had a clear interest in supporting the Mexican administration. According to the Canadian Department of Finance (1990: 6), “The U.S. is eager to lock in the unprecedented market oriented reforms undertaken by the present Mexican government.” This view was supported by John D. Negroponte, United States Ambassador to Mexico, who said “an FTA would institutionalize acceptance of a North American orientation to Mexico’s foreign relations.”³ A regime crisis in Mexico would have important security consequences for the United States. It could also increase the flow of illegal immigrants into the border states. Such concerns had less impact on Canadian politicians. Canada was less directly threatened by the consequences of political instability in Mexico, and more preoccupied with its own internal constitutional and economic problems.

Among the problems Canada faced was adjustment to the existing CUFTA. The inclusion of a low-wage region in a North American economic bloc would accelerate the painful adjustment process in labor-intensive manufacturing. NAFTA negotiations entailed a political cost by activating opposition from labor, social democrats, and environmentalists. Smouldering opposition to CUFTA was easily

3 This statement was made in a cable from the United States Ambassador to the Subsecretary of State for Interamerican Affairs, and reprinted in *Proceso*, No. 758, May 13, 1991:7. Negroponte’s view may have been based more on wishful thinking than accurate analysis. As Jesús Silva-Herzog averred: “The tremendous disparities between Mexico and the United States will constrain Mexico’s foreign policy from becoming simply a mirror of the economic policy that places a priority on closer economic ties with the United States. Mexico has a different style from its neighbour’s. Its way of approaching world problems is different, and its basic foreign policy positions are at wide variance with the U. S. positions in many instances. Economic integration with North America will not change these fundamental differences” (1991: 24).

inflamed against NAFTA. Whereas the U.S. President consolidated Congressional support for “fast track” authority to negotiate with Mexico by linking NAFTA to long-term U.S. strategic objectives, the Canadian Prime Minister was in a more vulnerable position vis-à-vis domestic opposition.

With few benefits to show from the existing CUFTA, a majority of Canadians were sceptical that extending the agreement to Mexico would improve their welfare.⁴ Even supporters of free trade worried about the “unfinished American agenda.” The United States was in a position of greater relative power in the negotiations. Some Canadians feared that the United States could extract side payments from Canada in return for a seat at the negotiation table. Mexico could be used against Canada in the negotiations to pry open access to cultural industries or other sensitive areas. More generally, the CUFTA could be re-opened or threatened.⁵ Gordon Ritchie, a former Canadian trade negotiator, asked: “Will the Americans use [NAFTA] to reopen parts of the FTA that they did not like?”⁶ All these factors contributed to weakening Canada’s initial motivation to participate in the negotiations; the opportunity to join the negotiations was adopted only “reluctantly” by Canadian policy makers (Eden and Molot 1991:22).

Free Trade, Public Goods, and the Free Rider Problem

Advocates of economic openness emphasize the mutually beneficial gains that accrue to countries pursuing reciprocal trade liberalization. Free trade is in the interests of all countries, even relatively less efficient producers, because it enhances global welfare. The neoclassical reformulation of liberal trade theory stresses that a nation’s comparative advantage lies in the relative abundance of its factors of production (Gilpin 1987: 175-176). Herminio Blanco, Mexico’s chief negotiator, apparently adopted such a perspective when he said NAFTA would combine “Canada’s natural resources, U.S. *technical expertise, and inexpensive labor from Mexico.*”⁷ Yet, despite the potential for “gains from trade,” *economic openness remains an*

4 The organized labor movement, which is relatively powerful in Canada, is staunchly opposed to NAFTA. In 1990-91 social democratic governments opposed to NAFTA were elected in three provinces—Ontario, Saskatchewan, and British Columbia—encompassing half of the Canadian population.

5 For a balanced appraisal of this issue, see Smith 1990: 7-8.

6 J. Daly, “A Triple Threat?” Maclean’s, *Octobers, 1990:48.*

7 J. Daly, “A Triple Threat?” Maclean’s, *Octobers, 1990: 49.*

elusive goal; it is more often espoused than practised. According to public choice theorists, this is because economic openness is a public good.

Public goods (such as clean air, traffic signs, public security) are jointly supplied and non excludable. The consumption of these goods by any one individual does not preclude their consumption by others. Moreover, no individual can be prevented from consuming these goods, regardless of whether she has contributed to their supply (Gowa 1990: 57; Gilpin 1987: 74). An individual who enjoys the benefits of a public good without helping to supply it is known as a “free rider.” It is necessary to overcome the free rider problem to provide public goods. During the 1988 free trade debate in Canada, this logic was used by Richard G. Lipsey (1988: 228) to argue that “giving up some sovereignty can be in the national interest.” Where there is an incentive to cheat, “tying one’s hands against certain policies leads to an outcome superior to that which arises when each individual nation is free to adopt policies seemingly in its best interest...It is, therefore, in the best interests of all trading nations to restrain their rights to raise tariffs by submitting to an international agreement...” (1988: 228).

Thus, according to public choice theory, an open global economy is a public good. For over forty years it has been provided by cooperation in the General Agreement on Tariffs and Trade (GATT).⁸ However, states behaving as rational opportunists are tempted to be free riders. They may protect their industries while others liberalize. Indeed, both Mexico and Canada have in the past been accused of being quintessential free riders (Hart 1990:41; Weintraub 1984:55). Both countries have defied the GATT, or sought ways to avoid GATT restrictions, while benefiting from the prosperity created by a liberal trading system. The task for policy makers is, therefore, to create mechanisms through which the free rider problem can be overcome for the mutual benefit of all countries.

The task of stabilizing an open international economy falls on the larger units in the international system. The leader, or “hegemon,” uses its influence to create regimes to foster international cooperation. Regimes are defined as “implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expect-

8 It has been argued that, free trade is not a public good because it is excludable. However, Joanne Gowa has shown that exclusion from free trade also creates collective action problems. Sanctioning free riders may be collectively rational but it is costly for individual states. Thus, the exclusion of free riders from the benefits of free trade is itself a public good “under realistic assumptions about the costs of sanctions” (1990: 63).

tations converge in a given issue area of international relations” (Krasner 1983:2). The hegemon must also prevent cheating and free riding by other actors (Gilpin 1987: 75). In recent years the GATT has grown to over one hundred member nations and the issues it faces have become more complex and intractable. In a recent article, the United States Secretary of State, James Baker III, expressed the frustration felt in Washington over “successful exporting nations” that “do not have a special affinity for the postwar liberal trading system,” and newly industrializing nations that “have been slow to expand consumption” commensurate with production. Baker (1988:

38) also noted the inability of GATT rules to protect “new Issues” like services, intellectual property, and high technology. In short, some United States policy makers felt other states were getting a free ride on the liberal trading system. “There is no question that this has been a problem in GATT,” said United States Senator Lloyd Bentsen: “We ran squarely into the free rider problem at the Brussels negotiations” in December 1990.⁹

Baker argued that in bilateral negotiations the United States could achieve its objectives, exclude free riders, and reinvigorate global free trade. Bilateral free trade agreements (1) do not undermine the multilateral trade system; (2) extend trade liberalization into “new” areas; (3) lower the cost of liberalization by breaking ground with one nation at a time; (4) pave the way for a “market liberalization club” as a potential alternative to the Uruguay Round; (5) provide a lever to achieve more open trade by excluding states that choose not to open markets; and (6) serve as a counterweight against domestic protectionist forces by showing that trade liberalization is achievable and beneficial. “We can demonstrate a hard-nosed Yankee-trader realism about bargaining: If all nations are not ready, we will begin with those that are and build on that success” (1988:40-41).

Baker did not suggest the liberal trading system was also threatened by flagging U.S. commitment to maintain the liberal international economic order.¹⁰ Former Canadian negotiator Michael Hart noted that the United States increasingly “approaches international negotiations with an agenda built up from individual irritants and no longer brings comprehensive vision or substantive leadership to the table. It has yet to come to grips with the challenge

9 Cited In J. Maggs, “GATT-Plus Would Deal With Free-Rider Nations,” *The Journal of Commerce*, April 19, 1991.

10 The liberal view tends to have a fairly undifferentiated view of state preferences. All state have a long-term interest In free trade despite the temptation to be a free rider.

to its economic leadership from Europe and Japan and with the profound changes that have taken place in the trading system” (1990:21).

Faced with growing protectionism in the United States and the deepening crisis of multilateralism, Canadian policy makers felt vulnerable to future U.S. protectionism—especially the use of U.S. trade remedy law against Canadian exports. These fears were intensified by the 1988 Trade and Competitiveness Act. The CUFTA addressed Canada’s concerns about access to its major export market and provided the United States with a model bilateral agreement that was consistent with the GATT. Canadian policy makers signed the CUFTA in the hope that it would insulate Canada against U.S. contingent protection and provide a more modern basis for managing the Canada-United States relationship (Hart 1990:46).

Having chosen bilateralism, how should Canada respond to third players that wish to join the club? According to Ronald J. Wonnacott, Canada should be motivated to persist in negotiations, even when a potentially unwanted player was added to the club (1990). Otherwise, a hub-and-spoke regime would emerge. Such a regime may be defined as follows:

In a hub-and-spoke regime, the United States would make separate and successive bilateral agreements within the hemisphere. In this approach, each new partner (for example, Canada) would initially receive important benefits from the bilateral agreement, in the form of access to lower-cost imports for the use of both consumers and industry, and duty-free access to the U.S. market. However, if the United States subsequently made separate agreements with other countries, Canada would not gain any benefits from future agreements, and would in fact lose out as the United States became more competitive from its preferential access to other markets and lower-cost imports. The United States would thus become increasingly competitive internationally, and would be able to enhance its dominance in the hemisphere as the centre of this expanding trade regime, at the expense of the spoke countries (Cameron and Macdonald 1990: 4).

To summarize, public choice theorists argue that free trade is a collectively optimal outcome. However, free trade is undermined by free rider problems that make regional agreements more attractive. Having secured access to its major export market through the CUFTA, Canada must seek a seat at the bargaining table to defend its interests each time a new partner is added to the agreement. Otherwise, a “hub of a rimless wheel” regime will emerge,¹¹ As

11 For a more detailed treatment of this issue, see Wonnacott 1990.

International Trade Minister John Crosbie put it: "We intend to be part of the hub."¹² Thus, the logic of the public choice view appears to be clinched.

The public choice view usefully highlights the importance to Canada of protecting the CUFTA, expanding exports into the Mexican market, and seeking to remain an attractive site in which to invest for firms interested in doing business in all three countries.¹³ However, it seriously misconstrues the politics of NAFTA negotiations in several ways. First, the United States is not principally seeking additional economic benefits from a new bilateral "spoke," much less to exclude Canada from the putative benefits. The United States may be interested in the long-term economic benefits from opening markets throughout Latin America. However, as noted earlier, the economic benefits of bilateral trade liberalization with Mexico are slight. Second, U.S. dominance in the hemisphere is in no way diminished by trilateralizing the trade negotiations. Asymmetrical interdependence among the three countries can be easily documented (see Eden and Molot 1991:3-5). Nor is there an objective basis for an alliance between Canada and Mexico in the trade talks. Canada may be expected to make concessions every time it seeks to remain within the framework of an expanding hemispheric free trade area. U.S. power is naturally greater in bilateral or trilateral than in multilateral negotiations. Bilateral bargaining has costs for small, trade dependent nations like Canada.

NAFTA negotiations cannot be accurately captured with the facile metaphor of a "win-win situation" which obfuscates the costs of regional integration for smaller countries. A more precise metaphor is that of a "mixed motive game." In mixed motive games; competition takes place among players within the framework of rewards for cooperation. In order to theorize about choices within this situation we need a perspective that treats states as positional actors interested in power (relative gain) as well as welfare (absolute gain).

12 N. Wood, "Reopening the Trade Wounds" *Maclean's*, March 18, 1991: 42.

13 As a corrective to the "hub and spoke" argument, Ricardo Grispun has argued that decisions other than lack of tariff-free access to Mexico are likely to play a stronger role in the investment decisions of firms. These include: "degree of access to U.S. market in terms of non-tariff barriers; exchange rate imbalances; cheaper costs of production; education and infrastructure; transportation costs and location of demands; government regulation and assistance; environmental costs; and the macroeconomic environment" (1991:6). Similarly, NAFTA would only marginally expand Canada's export market, since the Mexican market represents 3% of the size of the market of the United States (1991: 6). The real issue for Canadian negotiators is protecting the Canada-U.S. FTA—especially in such areas as rules of origin and energy.

U.S. Power, Positional Gain, and Bilateralism

The public choice view has a number of flaws which result in an underestimation of the obstacles to international cooperation. Stephen D. Krasner argues that states seek a broader range of goals than aggregate economic utility. States seek political power as well as wealth. This means, as Joseph M. Grieco has shown, that states are positional actors. Therefore, "in addition to concerns about cheating, states in cooperative arrangements also worry that their partners might gain more from cooperation than they do" (1988b:487). Grieco cites Kenneth Waltz's proposition: "When faced with the possibility of cooperating for mutual gains, states that feel insecure must ask how the gain will be divided. They are compelled to ask not 'Will both of us gain?' but 'Who will gain more?' If an expected gain is to be divided, say, in the ratio of two to one, one state may use its disproportionate gain to implement a policy intended to damage or destroy the other" (1988a: 602).

If states pursue relative gains, under what conditions will a large state agree to freer trade?¹⁴ Standard economic theory tells us that large states benefit relatively less from trade liberalization with small states. "The static economic benefits of openness are... generally inversely related to size. Trade gives small states relatively more welfare than it gives large ones" (Krasner 1976: 319). Stephen D. Krasner argues that large states will favor free trade, despite the relative improvements in income for the smaller units, if free trade increases their political influence (Krasner 1976:320). A large state can threaten smaller states with loss of access to crucial export markets. Smaller states are more trade dependent. A small, trade-dependent state will think twice before threatening a larger state, upon which it relies for exports, with market closure. The asymmetry of vulnerability gives larger units greater influence in any agreement to reciprocally reduce barriers to trade.

Joanne Gowa has made a similar argument. She also assumes states are concerned with relative gain as well as absolute gain. Under such conditions, trade agreements "are more likely to occur within than between military alliances" (1989:1253). Trade creates security externalities: "the source of the gain from trade is the increased efficiency with which domestic resources can be employed, and this increase in efficiency itself frees economic resources for military uses" (Gowa 1989:1246). Thus, the "real income gains that

14 On reasons why gains from trade liberalization flow disproportionately to small countries, see Helleiner 1990: 12-20.

motivate free trade are also the source of the security externalities that impede it” (Gowa 1989:1245). Yet, hegemonic states may accept free trade agreements when the benefits thereby created will be enjoyed only by their allies: “The dependence of each great power on the welfare of its allies gives each an incentive to define its self-interest altruistically... all members of an alliance may be better off if the great power or powers pursue free trade...” (1989:1252).

The arguments by Gowa, Grieco, and Krasner have suggestive implications for the analysis of NAFTA. In agreeing to negotiate a NAFTA, the United States was motivated by both relative and absolute gain. In the short run, the United States wanted to strengthen an administration with a strongly pro-American orientation. Mexico under Salinas became a model example of “economic reform and modernization” to be held up for “developing nations and reforming nations undergoing revolutions” to emulate.¹⁵ Washington’s interest in Mexico was sharply intensified by the dramatic results of the 1988 presidential election in Mexico. By contributing to Mexico’s prosperity through trade, the United States sought to increase its influence in a strategically important and potentially unstable neighbour. Thus, some politicians in Washington believed that “Mexico may be more likely to evolve toward democracy with a free-trade agreement” (Baer 1991:143).

In the long run, the Bush administration sought the benefits of market liberalization throughout the hemisphere. The United States may achieve objectives on a bilateral or trilateral basis that are unattainable in Multilateral Trade Negotiations in Brussels—in the area of investment and services, for example. NAFTA also enhanced U.S. bargaining power in the Uruguay Round of Multilateral Trade Negotiations. NAFTA, and the “Enterprise for the Americas Initiative,” demonstrated to the developing countries, Europe, and Japan that the United States had a non-negotiation alternative: “everyone realized we had the guts.. to walk away,” said one senior administration official.¹⁶

A stronger Mexico was also in Canada’s interest. “Although geopolitical considerations may be of greatest moment to the United States,” according to Hart, “they are not unimportant to Canadians” (Hart 1990:56). In fact, Canada made support for market reforms a centerpiece of its foreign policy objectives in Latin America (Cameron

15 K. Bradsher, “Baker Sees Mexico as a Soviet Model,” *The New York Times*, September 10, 1991: All.

16 K. M. Rockwell, “US Strategy Shift Pays Dividends In GATT Talks,” *The Journal of Commerce*, August 2, 1991.

1990). In 1990 it signalled a stronger interest in hemispheric affairs by joining the Organization of American States. Mexico was seen by Ottawa as “the key to our Latin American strategy.”¹⁷

Yet, despite Canada’s interest in promoting markets and reform in Latin America, *NAFTA* negotiations were perceived as having significant political costs. First, Canada might have to make concessions in return for a seat at the table to protect the FTA. As one Washington-based trade consultant put it: “You come into this negotiation and you’ll be told ‘OK Canada, you wanted to be involved. Well, here’s what it’s going to cost you. ‘ It’s going to be very painful.’”¹⁸ Indeed, Canada had considerable difficulty lobbying Washington to get a seat at the table. Canada was finally included, over Mexican objections that it would cause excessive delays, partly as a reward for support in the Persian Gulf War.¹⁹

A second cost to Canada would be to have the CUFTA re-opened. The asymmetrical bargaining relationship with the United States made concessions likely whenever Canada sought to renegotiate the terms of its trade ties on a bilateral basis. Hart argued Canada could “achieve some of the goals that did not prove negotiable in 1987...” (Hart 1990: 8). Other observers felt Canada was unlikely to get better terms in the negotiations because of its weak bargaining position. As Bruce Wilkins on has argued:

.. the United States exerts much greater leverage over Canada than vice versa. This is not only because of its greater size and Canada’s dependence upon trade with it, but because its own legislation has been designed to give it a more powerful position in the FTA.... Once Canada has restructured its industry on a north-south basis and becomes even more dependent upon trade with the United States, it will not be in a position to terminate or threaten to terminate the agreement. The United States, however, will more readily be able to do so in order to get its way in subsequent negotiations (Wilkinson 1991: 63).

Initially, the fear that the CUFTA would be re-opened seemed unfounded. In February 1991 United States Trade Representative Carla Hills said there would be no effort to reopen what was already negotiated.²⁰ Then in March she said “there will be modifications” to

17 H. Galarneau and M. Tessier, *Canadian International Relations Chronicle*, Ottawa: Centre Québécois de Relations Internationales/External Affairs and International Trade Canada, January-March 1990: 20.

18 William Merkin, cited In Nancy Wood, “Reopening the Trade Wounds,” *Maclean’s*, March 18. 1991:42-3.

19 M.Drohan, “Canada Invited to Talks: Gulf stance Called key to Mexico,” *The Globe and Matt*, January 12, 1991: B1-2.

the CUFTA.²¹ Finally, in May Hills vowed to “use the talks to beat down barriers in Canada to U.S. movies, TV programming, books, and magazines.”²²

The third problem for Canada was the prospect of the two smaller players being used against each other. According to Herminio Blanco, Mexico wanted to bargain from a “clean slate.”²³ Having Canada at the table imposed the CUFTA blueprint on Mexico. This was not in Mexico’s interest. In return, Mexican Secretary of Commerce Jaime Serra Puche called the inclusion of cultural industries on the agenda “not a worrisome issue for Mexico.”²⁴ Canada and Mexico have developed few common interests or coordinated bargaining positions because of the historically low level of interaction between the two countries. Hart argued that “Canada may find in Mexico an ally...” (1990: 8). However, an “alliance” between Canada and Mexico goes against the structure of the game, for neither seeks to irritate the United States. In some areas the interests of the two countries are in harmony. Canada has recognized that petroleum is protected by the Mexican constitution.²⁵ However, Canada’s real interest is to protect western Canadian production from “Mexico’s sheer potential as a supplier of petroleum products” in the U.S. market (Department of Finance 1990).²⁶

Canada’s interest in joining NAFTA negotiations was fundamentally defensive and positional. In the long run Canada expected benefits from increased trade with Mexico and Latin America. However, in the short run, Ottawa sought to protect its privileged relationship with the United States in the existing CUFTA, more than to pursue Joint gains from trade. What was Canada’s bargaining position? The Minister of International Trade, Michael Wilson, insisted that Canada “is not prepared to negotiate now what was settled” under the

20 “Acepta EU las limitaciones constitucionales mexicanas para Incluir el petróleo ene. ALC “El financiero, February 7, 1991:12.

21 “Con eITLC no se perderían las reformas de CSG; deben acompañarse de cambios políticos: C. Hills,”E;nnanc(ero. March27. 1991: 1.

22 P. Magnusson and S. Baker, “The Mexico Pact: Worth the Price?” *Business Week*, May 27. 1991:35.

23 P. Muñoz RÍOS, “Mesa limpia para negociar: Blanco,” *El Financiero*, February 14, 1991: 1,10.

24 J. Maggs, “Talks Started On Free-Trade Agreement,” *The Journal of Commerce*, June 13, 1991:A3.

25 •J. Sánchez. “El petróleo puede considerarse como caso de excepción y salir del ALC,” E; financiero, Februarys, 1991:10.

26 See also I. Rodríguez Reyna, “Dependerá de los negociadores mexicanos si se Incluye el en elALCTrllateral/ElFinanciero, February 14. 1991: 13.

CUFTA.²⁷ At the same time, Canada officials resisted negotiations on issues, such as cultural industries and the Auto Pact, that were excluded from CUFTA. This position leaves little “bargaining space” for cooperative solutions. Canadian negotiators could be expected to make few concessions in order to win Mexican support for a NAFTA, for trilateral talks were unwelcome in the first place. Thus, Ottawa’s bargaining position was that CUFTA should be trilateralized with as few changes as possible. “The main dynamic is not about renegotiating the free-trade agreement,” said a senior Canadian official, “but about bringing in Mexico.”²⁸

It might be argued that the bargaining power of Canadian negotiators could be enhanced by their low level of commitment to the negotiations. The stronger player in any bargaining situation is not necessarily the one that has definite objectives and a strong commitment to play the game. Rather, a player who can walk away from the negotiations is in a strong bargaining position. Thus, “Canada is in a stronger position to resist U.S. pressure because, with the trade agreement with the United States in place, negotiators can more easily walk away from the trilateral talks if the United States insists on unacceptable conditions.”²⁹ As former Minister of International Trade John Crosbie said, Canada has the right to retire from the negotiations if it is not in its national interest: “We would simply not sign.”³⁰ However, Canada was admitted to the negotiations on the condition that whenever one country causes delays, the other two may proceed to a bilateral agreement within the larger trade pact. This restricted Ottawa’s ability to hold up the talks by stonewalling on key issues.³¹

Domestic Politics and Opposition to NAFTA in Canada.

A major cause of Canada’s reluctance to join NAFTA talks falls outside the scope of systemic theories that assume states are unitary actors:

27 P. Magnusson and S. Baker, “The Mexico: Worth the Price?” *Business Week*, May 27, 1991:10.

28 D. Fagen, “Mexican Patience Wearing Thin,” *The Globe and Mail*, August 22, 1991: B3.

29 D. Fagen, “Mexican Patience Wearing Thin,” *The Globe and Mail*, August 22, 1991: B3.

30 R. Fuentes-Berain and F. Parra López, “Respetará Canadá la sensibilidad mexicana en torno al petróleo,” *El Financiero*, February 19, 1991: 11.

31 “Habló Bush con Salinas y Mulroney sobre el TLC,” *La Jornada*, February 6, 1991: 26.

political instability reduces Canada's ability to negotiate a mutually beneficial outcome. The announcement of U.S.-Mexico talks "came as an awkward surprise to Canada at a time when Ottawa was grappling with domestic ethnic strife, Quebec's separatist urges and the future of the federation" (Baer 1991:140). Over half of the Canadian public opposed NAFTA.³² Prime Minister Brian Mulroney reportedly told Salinas in March 1990 that freer trade with Mexico would "stir up a controversy in Canada."³³

Domestic coalition stability provides a leader with "room to discover" whether the parties to a negotiation "can be better off through integrative bargaining. The stability of the coalition allows it to explore if a bargaining space exists" (Aggarwal and Allan, forthcoming). Moreover, a leader with high "incumbency expectations... is likely to have a long-term time horizon permitting the development of integrative bargaining solutions" (Aggarwal and Allan, forthcoming). Canada does not have a stable coalition.

By the time trilateral negotiations began, the Mulroney government was weak and highly unpopular. In October 1991 it became public knowledge that the Prime Minister had considered leaving his post and seeking the position of Secretary General in the United Nations. The growing separatist mood in Quebec reinforced the intense search for solutions to the problem of national unity and distracted the government from foreign policy issues. There was doubt about "Canada's ability to implement a trilateral agreement, if one could be negotiated" (Smith 1990:10). This would, according to Murray G. Smith, depend on "whether the negotiations are concluded within the life of the current Parliament and the extent to which the negotiated trilateral aspects reach into provincial jurisdiction" (Smith 1990:10).

Mexico had sought to keep Canada out of the negotiations because it did not want its negotiators constrained by the CUFTA blueprint. Mexico worried that Canada would be a "spoiler," walking away from the talks at an inopportune moment; that it would be unable to implement the final agreement; or that an election would reverse the policies of the Canadian government before an agreement was reached. These fears had some justification.

Ottawa's bargaining horizon was limited by the fact that the Mulroney government could be voted out of office before implementing the final legislation. The opposition of the other major parties to

32 See Gallup poll reported in *EI Financiero*. April 5, 1991: 11.

33 J. Daty, "A Triple Threat?" *Maclean's*, October, 1990: 48.

CUFTA in the 1988 election was a matter of record. This election was fought almost exclusively on the issue of free trade. Moreover, the timetable for negotiation was set by the other players and it gave Canadian policy makers little time to consider their interests. The major time constraints were the United States presidential election in 1992 and the Mexican presidential election in 1994. Any effort to conclude an agreement before the end of 1992 gave Canada little opportunity to explore the “bargaining space” with Mexico and the United States. Therefore, it was reasonable to expect Canadian negotiators to devote less effort to develop integrative bargaining solutions than to seek ways of including Mexico in CUFTA with as few changes as possible.

Conclusion

A public choice perspective on NAFTA fails to capture the essentially political logic of NAFTA negotiations. Cooperation among states is not motivated “solely out of a desire to maximize ...individual long-term total payoffs” (Grieco 1988b: 496). States are also positional actors, concerned with relative gain (power) as well as absolute gain (wealth). The motivation behind trade liberalization was more complex than the egoistic pursuit of absolute gain. Neither the United States nor Canada would be as interested in NAFTA if only absolute gain was at stake in the negotiations. Thus, a public choice perspective cannot account for Ottawa’s reluctance to join a NAFTA.

The United States was seeking to strengthen an ally by prosperity through trade in order to enhance its influence in a potentially unstable neighbor. This provided a powerful source of interest in negotiating an agreement where immediate “gains from trade” were minimal. NAFTA provided a response to the rise of Japan and Europe, showing to them that the United States had an alternative to the GATT. NAFTA also provided a model for future trade liberalization in Latin America that could bring significant benefits to the U.S. economy. Thus, in the long term, the United States was motivated by both absolute and relative gains.

Although Canada could expect long-term benefits from trade liberalization with Mexico and the rest of Latin America, the few immediate benefits of a NAFTA had to be balanced against immediate political costs. Canadian interests were defensive and positional. However, Ottawa’s reluctance to join NAFTA cannot be understood without reference to the arena of domestic politics. Coalition instability in Canada weakened the resolve of the Canadian government to pursue integrative bargaining solutions that would be acceptable to the other players. Canada’s strategy was to include

Mexico in CUFTA with minor adjustments to existing arrangements. Any departure from this outcome risked defection by Canada.

Public choice theory does not serve us well in analyzing the variance in motivations among states in the pursuit of regional free trade. A positional view of states helps explain part of the strategic logic behind NAFTA, but is incomplete as an explanation for the motivation of Canadian policy makers in joining NAFTA negotiations. The lack of attention to domestic politics reduces the value of this perspective for understanding Canadian preferences and strategies. A more useful approach would be to try to combine domestic and international factors in a "two level" analysis of all three countries (Putnam 1988). For such a research project, the case of NAFTA provides a promising laboratory.

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