

**CANADA, THE UNITED STATES AND MEXICO:
THE DEVELOPMENT OF TRILATERALISM**

Stephen J. Randall*

ABSTRACT

The 1990 decision by the Conservative Government of Prime Minister Brian Mulroney to participate in trilateral talks on a free trade agreement encompassing Canada, Mexico and the United States must be understood within a larger historical context. The critical parameters of that context include: the historical evolution of Canada-United States relations; the orientation of United States foreign economic policy; the traditional bilateral relationship between Mexico and the United States; the increased official and business community Canadian interest in Latin America; and, finally, developments in Europe and Asia. This paper addresses that larger framework before turning to the specific debate surrounding the 1990 decision to participate in what had begun as United States-Mexico bilateral negotiations. It is important to stress that this paper is not intended as an analysis of the cost/benefits of either the Canada-U.S. Free Trade Agreement (FTA) or the potential trilateral agreement, but rather of the historical, economic, political and psychological dynamic within which decisions have been taken and which help to understand those decisions.

RESUMEN

La decisión que tomó el gobierno conservador del Primer Ministro de Canadá, Brian Mulroney, de participar en las negociaciones trilaterales sobre un Acuerdo de Libre Comercio entre Canadá, México y Estados Unidos se tienen que entender en términos de su contexto histórico. Los parámetros clave de este contexto son: la evolución histórica de las relaciones entre Canadá y Estados Unidos; la orientación de la política económica exterior estadounidense; la relación bilateral que había existido entre México y Estados Unidos; el creciente interés en América Latina, tanto por parte de la comunidad oficial como de la comunidad empresarial, y finalmente, los acontecimientos en Asia y Europa. Este trabajo trata el contexto global antes de emprender una discusión más específica sobre la decisión en 1990 de participar en lo que había empezado como negociaciones bilaterales entre México y Estados Unidos. Es importante enfatizar que el trabajo no pretende ser un análisis de los costos y beneficios del Acuerdo de Libre Comercio entre Canadá y Estados Unidos, o de los costos y beneficios de un posible acuerdo trilateral. Más bien es un análisis de la dinámica histórica, económica, política y psicológica que forma el contexto dentro del cual se han tomado las decisiones y que nos ayuda a entenderlas.

***Stephen J. Randall.** Chair in American Studies Faculty of Social Sciences, University of Calgary.

The Canada-United States Relationship

FROM the mid-nineteenth century until the present the Canada-U.S. relationship has been characterized by increasingly closely-related economic activities, high levels of American private investment in Canadian industries, especially in extractive industries and manufacturing, a prosperous two-way trade relationship that ultimately produced the highest bilateral trade in the world, closely integrated defense systems, and periodic Canadian fears of American protectionism, economic as well as political hegemony. Since the nineteenth century Americans and Canadians also shared a number of institutions, more than has ever been the case between the U.S. and Mexico. These ranged from social service clubs to trade unions. First the Knights of Labor in the 1880s, then American Federation of Labor became the standard labour federations in both countries, and with the emergence of the C.I.O in the 1930s, that too quickly spread into Canadian mass production industries. Automobile production became one of the most tightly integrated industries, a reality that was confirmed by the 1960s Auto Pact between the two countries. Workers in the automobile industry on both sides of the border came under the United Auto Workers until the recent split and formation of the Canadian Auto Workers (CAW). In the political and social spheres the parallels and ties across the undefended border were striking, although they masked fundamental differences in the political cultures. The women's suffrage movements emerged in both countries at the turn of the century, had overlapping support and cooperation among the leadership, and achieved their objective at approximately the same time (except in Quebec). The temperance/prohibition movement in the U.S. found an echo in Canada, and Canadian liquor manufactures found fortune in American markets during prohibition. Professional sport, initially hockey and later baseball, also seemed to tie the two countries together in the course of the twentieth century. A shared language and a shared border facilitated the movement of labour, of goods, of ideas, radio and television programming, and mass circulation magazines, although the flow of influence, institutions, capital, and culture was primarily from south to north. It was no wonder that many people on both sides of the border frequently thought in continentalist terms.

In the trade relationship, although approximately 80 percent of Canada-United States trade was duty free by the 1980s, the symbolic importance of maintaining perceived autonomy over Canadian trade, economic development, and culture has traditionally lay at the heart of the debate among Canadians of closer economic ties with the United States.

During the development of those ties, the levels and nature of American investment in Canada, the implications of closer economic integration, and the very relationship itself have been frequent sources of controversial, often intense, debate within Canadian society. Not surprisingly what has been controversial in Canada, however, has evoked only sporadic and normally low level public concern in the United States. In general terms, Canadians, and usually their governments, have seen the nature of the economic relationship with the United States as fundamentally linked to their political and cultural identity, a phenomenon that is not paralleled in the American experience. It is impossible to escape the conclusion that although American policymakers have been sensitive to the Canadian political agenda, there has also been a tendency to take for granted the availability of Canadian raw materials, the openness of the Canadian investment market, Canadian cooperation in international defense and foreign policy questions, and a commonality in Canadian political and economic culture. When there has been friction between the two nations, it has tended to arise on occasions when American policymakers, congressmen and a variety of American interest groups have wrongly assumed the commonality of interest, of political orientation, and economic needs of the two societies.

The evolution of the Canadian-American economic relationship has been progressively in the direction of some form of economic integration of the two countries. In the 1850s British North America and the United States entered into a reciprocity agreement, which lasted barely a decade before it was abrogated by the United States Congress in the midst of American antagonism toward the British for supplying confederate military vessels during the Civil War and toward Canada for being too lenient with Confederates and Confederate sympathizers on the Canadian side of the border. The end of that reciprocity agreement, however, did not end either the continued growth of trade or direct investment between the two countries, although there were ongoing disputes over access to fisheries, sealing in the Bering Straits, and territorial claims, culminating in the Alaska boundary dispute early in the twentieth century, when the Canadian claim lost to the American. Nor did Prime Minister John A. Macdonald and the Conservative Party's development of a National Policy from the 1870s on block American investment in the late nineteenth and early twentieth centuries. The National Policy, as

Michael Hart has recently reminded us in his analysis of Canada-United States-Mexico economic relations, remained the economic and perhaps psychological foundation of Canadian policy for a century.¹ For Macdonald, it was based on high protectionist tariffs to promote the development of Canadian industry-especially iron and steel, textiles, coal and petroleum products-railroad construction to link East and West, and the peopling of the West to counteract the natural magnetic attraction of North-South flows.² It is important to remember that the National Policy in Canada differed little from United States tariff and economic policy in the late nineteenth, which built a powerful economy behind protectionist tariffs but also pursued by the turn of the century an aggressive overseas search for markets and sources of raw materials. The U.S. turned toward trade liberalization as a global strategy only after it had achieved the economic, strategic and political capacity to win.³

On the eve of World War I, the issue of commercial reciprocity once again arose, following the passage in the U.S. Congress of the Payne-Aldrich tariff, which technically required the U.S. to apply maximum duties to Canadian goods in retaliation against an offending provision in a Canada-France commercial agreement of 1907. The more continentalist Liberal Government of Wilfrid Laurier had already unsuccessfully sought a reciprocity agreement with the United States in 1896 and returned to that theme in 1910-1911 in an effort to fulfill a long-time objective, avoid American tariff retaliation, and counter the government's sagging political fortunes. The Republicans under William Howard Taft were receptive, indeed enthusiastic, and took much of the initiative as the two governments moved quickly in the fall of 1910 and early 1911 to conclude an agreement on a comprehensive trade agreement, which would be implemented as parallel legislation in the two countries to avoid involving the American Senate or the British Government.⁴

1 Michael Hart, *A North American Free Trade Agreement: The Strategic Implications for Canada* (Halifax: Institute for Research on Public Policy, 1990).

2 R. Craig Brown, *Canada's National Policy, 1883-1900: A Study In Canadian American Relations* (Princeton: Princeton University Press, 1964); John Dales, *The Protective Tariff in Canada's Development* (Toronto: University of Toronto Press, 1966); "The National Policy, 1879-1979," *Journal of Canadian Studies*, 14 (Autumn, 1979).

3 U.S. economic foreign policy is effectively documented in, among many other studies, Alfred Eckes, Jr., *The United States and the Global Struggle for Minerals* (Austin: University of Texas Press, 1979); and S. J. Randall, *United States Foreign Oil Policy, 1919-1948: For Profit and Security* (Montreal: McGill-Queen's University Press, 1985).

4 For the 1911 debate see: Paul Steeven, ed., *The 1911 Election: A Study in*

The draft agreement involved the removal of duties on most raw materials and some manufactured goods, some continued protection for such goods as motor vehicles, canned vegetables, and barley. The U.S. granted preferential rates to Canadian semi-processed goods such as aluminum and partly processed lumber, and such raw materials as iron and coal.

As with the free trade debate in 1988, that of 1911 evoked strong emotions. The Conservative Party in general opposed the agreement, as did a faction of the Liberal Party led by Clifford Sifton, and the manufacturing interests of southern Ontario and Quebec, fruit growers in Ontario and British Columbia, and railroad interests. Aligned against them were most of the spokesmen for Western Canadian farmers and some Ontario agricultural interests. The arguments for and against reciprocity echoed those of 1988 as well, with broader philosophical and political arguments joined with those of narrow interest groups. Thus, broad prosperity for the masses was held out as a carrot, along with the contention that it was necessary to maintain positive relations with the United States. Critics charged then, as now, that manufacturing jobs would be lost to the United States, that the agreement would result in the rapid sale of Canadian natural resources south of the border, and that Canadian sovereignty would be compromised, in the process weakening the treasured ties of Canada to Great Britain.

The resonance of the 1911 debate in the present is striking. Those basic issues in the Canadian-American relationship are perennial concerns. Yet, in 1911 the strength of the opposition in Canada overrode Laurier's initiative. Although the agreement gained approval in the U.S. Congress, in Canada, failing approval in the House of Commons, Laurier was driven to the polls, where the Liberals were soundly defeated by the Conservatives under Robert Borden and a Quebec Nationalist Party under Henri Bourassa. The agreement was effectively dead for the time-being, but it had brought to centre-stage the essential parameters of a debate that has been a continuing one in this century-between continentalism and closer ties to the U.S. on the one side, and a quest for a heightened Canadian autonomy on the other.

For the United States the reciprocity debate underlined the nature of American international trade and Investment policies, with their

Canadian Politics (Toronto, 1970); L. Ethan Ellis, *Reciprocity 1911: A Study in Canadian-American Relations* (New Haven: Yale University Press, 1939). On Canadian policies see C.P. Stacey, *Canada and the Age of Conflict: A History of Canadian External Policies*, vol. 1: 1867-1921 (Toronto: University of Toronto Press, 1977).

concentration on the achievement and maintenance of an open door for investment abroad and security of access to foreign supplies of raw materials. The process also highlighted the continuing power of special interest groups in the U.S. tariff-making process, an influence that was only slightly modified by the establishment of the United States Tariff Commission during the Woodrow Wilson administration. The power of those special interest groups on Capitol Hill, as well as with the White House, has remained a Canadian concern and contributed to the desire to negotiate a free trade agreement in the 1980s.

During the 1920s and early depression years, a series of Republican administrations in the United States pursued protectionist tariff policies, from the Fordney-McCumber Act of 1922 through the Smoot-Hawley Act of 1930. The combined forces of protectionism and international depression drove both parties toward a renewal of reciprocity discussions in the 1930s; the situation was accelerated by the fact that from 1933 the traditionally lower tariff Democrats were in power in Washington. In Ottawa both Mackenzie King and R.B. Bennett endorsed trade negotiations with the U.S. to offset depression conditions and the negative effects of American tariff protection on Canadian agricultural exports. Secretary of State Cordell Hull was especially committed to tariff and trade liberalization as a means to undercut international conflict as well as improve the American economy, and he successfully pressured Franklin Roosevelt and Congress toward the passage of a Reciprocal Trade Agreements Act in June 1934 that enabled the administration to negotiate executive reciprocity agreements without recourse to Congress.⁵ This orientation toward the achievement of international trade liberalization remained a basic U.S. policy objective in the post-World War II years, and is embodied in such international agreements as the GATT.

With the passage of the Reciprocal Trade Agreements Act in 1934, the Roosevelt administration turned to the negotiation of a number of bilateral agreements, including one with Canada. The re-election of Mackenzie King and the Liberals in 1935 facilitated that process, with the result that the two countries concluded an agreement late in the year, granting American concessions on lumber, fish, dairy products, cattle and potatoes, and Canadian concessions on American textiles, shoes, farm implements, automobiles and parts, and

5 C.P. Stacey, *Canada and the Age of Conflict*, vol. 2: 1921-1948, *The Mackenzie King Era* (Toronto: University of Toronto Press, 1981); on the American side see Robert Dallek, *Franklin D. Roosevelt and Foreign Policy*.

selected iron and steel products. By 1939 trilateral discussions involving Canada, Great Britain and the U.S. concluded in two bilateral agreements, one between Canada and the U.S., and one between Britain and the U.S. In these agreements Canada gained some concessions on agricultural products and lumber in return for granting concessions to American producers of fruit, paper products, iron and steel products, machinery and textiles. The established historical trade and economic pattern thus remained-encouragement for the production of Canadian raw materials and farm products on the one side and for American manufactured goods on the other.

World War II and the early Cold War contributed to the further movement of Canada into the American orbit, with the integration of Canada into the American defense industries and defense planning, the establishment of joint defense boards, Canadian membership in NATO and the establishment of NORAD in the 1950s.⁶ It was in this context that the Liberal Government of Mackenzie King, along with the Truman and then Eisenhower administrations, explored the possibility of closer economic integration between the two countries. This discussion was accelerated by a Canadian debt crisis immediately following the war, which was eased by European purchases in Canada using American funds funnelled through the Marshall Plan. The crisis underlined to Canadian officials the need to establish longer-term planning for relations with the United States, with the result that in 1947-48 C.D. Howe, minister of trade and commerce, and other Canadian officials, explored with the State Department the possibility of establishing a free trade area or customs union between the two countries. The idea was well advanced when King got cold feet, argued that the plan was personally and politically unacceptable, and promised to oppose it. King's change of heart seems to have derived from his growing fear of American economic and political domination, a fear that seemed real enough in light of the statement in one official State Department document to the effect that "knitting the two countries together [had been] an objective of United States foreign policy since the founding of the Republic."⁷

King's concerns were echoed in a Royal Commission study in 1955 on Canada's Economic Prospects. That Commission indicated the

6 Robert Cuff and J. L. Granatstein, *Ties that Bind: Canadian American Relations in Wartime from the Great War to the Cold War* (Toronto, 1977).

7 U.S. Department of State, *Foreign Relations of the United States*. 1948, (Washington, 1974), IV, 419-24.

growing levels of American direct investment in Canadian industry (controlling more than 50% of secondary industry), suggested that this investment was critical to the Canadian economy, but also concluded that Canada needed to exercise more control over foreign investment in the country. That issue was exacerbated by a debate in the late 1950s over the construction of a Trans-Canada pipeline to move western natural gas to Ontario and Quebec. Trans-Canada Pipelines, Ltd. was a conglomerate of Canadian and American firms, but were unsuccessful in their efforts to raise the capital to complete the line to Quebec or to build a spur into the American midwest, in the latter case because of successful lobbying by American coal and gas producers. C.D. Howe succeeded in pushing through the House of Commons a bill establishing a crown corporation to build the line's most unprofitable section through northern Ontario and to extend short-term government credits to the company to facilitate construction. He succeeded; the line was built, the loans repaid, the firm sold largely to Canadian investors, and natural gas pumped to Toronto and Montreal; but the political fallout was dramatic. With the Conservatives and others crying that the measure had been designed largely to satisfy American investors, the Liberals were soundly defeated by John Diefenbaker and the Conservative Party in the 1957 election. Once again, Canadian-American economic relations had proven to be a political battlefield and burial ground.

United States economic policy and the American investment presence in Canada became increasingly a target of discussion from the late 1950s through the early 1970s. Canadian economic nationalism blossomed during these years, as calls for restrictions on foreign investment became more insistent. Critics of the American presence and economic linkage pointed to a variety of factors to support their contention that Canadian dependency was excessive:

the high level of American investment in strategic raw materials in Canada; such developments as the Eisenhower import duty on petroleum, from which Canada was ultimately exempted, or the Nixon administration's 1971 measures designed to deal with the prolonged American balance of payments deficit. The Nixon measures ended the convertibility of American dollars to gold and increased tariffs across the board by 10 percent. The measures seemed severely to threaten Canada's balance of payments situation, but all appeals for exemption failed to wring concessions or exemption from Washington.

It was thus not surprising that in the course of the 1970s, the traditionally continentalist Liberal Party under Prime Minister Pierre Elliott Trudeau began to move in a new direction, implementing legislation creating the Foreign Investment Review Agency (FIRA) in 1974, which was empowered to review all takeovers of Canadian

firms by foreign investors; that measure was followed by the establishment of Petro-Canada as a state oil enterprise which was to set standards in the industry and ensure that Canada had a direct role in research, development and marketing of Canadian oil resources. This seemed a logical step in the context of the 1974 Arab-OPEC oil embargo and skyrocketing prices for oil products in the 1970s. Following a short Conservative Party interlude under Prime Minister Joe Clark in 1979-80, Trudeau and the Liberals introduced the National Energy Policy, one objective of which was to exercise greater state control over oil prices at a time of international oil supply crisis. Those initiatives produced a crisis not only in domestic Canadian politics, specifically between the producing province of Alberta and the federal government and between Ottawa and Washington. Cumulatively, the Liberal measures seemed to threaten the traditional open door for American investment in the resource sector in Canada and to compromise American national security in the process, given the realities of the international oil industry at the time.

That was the context in which the Conservative Government of Brian Mulroney was elected in 1984, promising to turn around the Canadian economy and reshape Canadian society. With promises to reduce statism, encourage privatization, facilitate foreign investment, and reduce the national debt, the Conservative Government set about the task of remaking Canadian society. For the first time in Canadian history, a Conservative Government turned largely to the United States for its political and economic models, even its inspiration in foreign policy. From the time that the Prime Minister and President Ronald Reagan sang "When Irish Eyes are Smiling" together in Quebec city, the Canadian political agenda and landscape was transformed. Although the Conservative Government did not achieve its fiscal tightening goals, driving some unhappy Western Tories into the Reform Party, it moved toward divestment of control over Petro-Canada, closed significant portions of the national railroad system, cut the budgets of such treasured national symbols as the Canadian Broadcasting Corporation, negotiated a free trade agreement with the United States in 1988, and internationally joined the United States-dominated Organization of American States; for the first time since Korea a Canadian government sent Canadian forces abroad not to engage in a more traditional peacekeeping role but to fight in the U.S.-led international coalition against Iraq.

Thus, what is critical to understand in approaching the question of Canadian involvement in trilateral trade negotiations with the United States and Mexico is the long history of Canadian-American involvement in trade and cross-border investment, the apparent radical departure by the Mulroney Government in Canadian foreign policy toward the United States, and a strong commitment by the

Conservative Government to move toward what is believed to be a more American model of market economics.

Canada, the Free Trade Debate and Mexico

The 1988 Canadian election which returned the Mulroney Government to power riveted Canadian attention more on the general, but especially economic, relationship with the United States than at any time in Canadian history. The Une seemed to be drawn between those who wished and those who did not wish to see a move toward what was interpreted as Increased economic integration with the United States. That was the deeper issue, even though the debate was sometimes presented, primarily by the proponents of free trade, as a difference between those who believed Canada should move into a modern competitive economic world and those who still had their heads in the sands of an outmoded economic nationalism. Such contempt for the opponents of free trade as anachronistic nationalist cranks did injustice to the fundamental and important questions that were being asked about the implications of Canadian-American free trade, about the meaning of the harmonization of the two economic systems and the establishment of a "level playing field."

The economic downturn during the 1989-91 period throughout North America, and the loss of hundreds of thousands of Canadian manufacturing jobs, many of them considered permanent losses, continued pressures on Canadian social programs from the business community, from Conservative and Reform Party spokesmen, have not inspired confidence among those who believed, rightly or wrongly, that the FTA had helped to pave the road to ruin.

Thus, when in 1989-90 Mexico and the United States moved into discussions of a possible bilateral free trade agreement, there was consternation even among FTA supporters that the Canadian "gains" of the FTA would be extended to Mexico or that the Canada-U.S. FTA would be compromised. Even free trade supporters such as University of Western Ontario economist Ronald Wonnacott expressed concern about the dangers to Canada of what he called a "hub and spokes" approach to free trade negotiation, in which the U.S. (the hub) negotiated a series of bilateral free trade agreements with western hemisphere countries along the lines of the agreement with Canada, a process that in his view would strengthen the United States and do less for its trading partners.⁸

8 Ronald J. Wonnacott, "U.S. Hub and Spoke Bilaterals and the Multilateral Trading System", *C.D. Howe Commentary* (Toronto: C.D. Howe Institute, October

With the Mexican government of Carlos Salinas de Gortari opening out to the international economic community, breaking down longstanding protectionist trade barriers and encouraging foreign investment, joining GATT, and aggressively pursuing what only a decade earlier would have seemed politically impossible—a free trade agreement with the United States—Canada's position seemed precarious. The choices were obvious. Canada could either stand on the sidelines and watch the Mexico-U.S. proceedings, hoping that nothing damaging to Canada came out of them, or it could become an active participant with the objective of protecting its gains, even if participation might also involve a possible reopening of the Canada-U.S. FTA.

During the spring and summer of 1990 that dilemma remained. Again, the lines were drawn between antagonists and proponents as they had been in 1988, although this time there was more ambiguity on both sides. Some businesses fretted that they would be unable to compete with lower labour and social cost Mexican industry; yet, on the whole the multinationals and large Canadian firms, with the possible exception of the automobile industry, saw advantages in expanding the trade horizon to include Mexico. The Canadian Chamber of Commerce and the Canadian Manufacturers Association, the two most powerful business voices in the country, both strongly supported participation in tri-lateral talks; but such firms as the boot and shoe industry, clothing and furniture manufacturers, those which have experienced sectoral adjustment problems with the Canada-U.S. FTA, have been less sanguine about their future if an even lower labour cost country is drawn into the picture.⁹ Canadian labour and the political left was unambiguous in its opposition to any agreement with Mexico, portraying such continental integration as an American effort to maximize access of American capital to low cost labour and Canadian and Mexican raw materials. Others pointed out that Canada and Mexico had little economic compatibility. Bilateral trade between the two countries in 1988 was only \$1.4 billion, in contrast to the \$42.1 billion U.S.-Mexican trade and the \$151.2 billion Canada-U.S. trade. As on earlier occasions, it was pointed out that what Canada and Mexico shared was an excessive dependency on American imports: 64% and 75%,¹⁰ and that a North American

1990.

9 Lorraine Eden and Maureen Appel Molot, "The View from the Spokes: Canada and Mexico Face the US", In S.J. Randall, H. Konrad and S. Silverman, *The Challenge of North American Integration* (Calgary: University of Calgary Press, In press).

10 Steven Reitsma, "Canada, United States, Mexico: Trade Policy Options", *Canadian Business Review* (Winter, 1990), p. 18.

free trade agreement would simply perpetuate such a pattern. An Issue that troubled primarily the Canadian political left was the poor Mexican record on human rights, the one party political dominance under PRI (Institutional Party of the Revolution) since the 1930s, the lack of a real Independent voice for Mexican labour, the visible poverty of Mexican cities, including those border cities in which the maquiladora industries have concentrated, and Mexico's abysmal record on environmental protection.

In the academic/diplomatic communities Michael Hart in 1990 published an influential monograph clearly siding with trilateralizing the FTA and debunking Canada's outmoded national policy. The work was influential because it flowed from the pen of someone who, as a member of the Department of External Affairs Trade negotiations Office, had been important in drafting the FTA. At the time of the publication of his monograph he was on leave from External, working with the Centre for Trade Policy and Law in Ottawa, and he has since returned to External Affairs. Hart expressed little faith in the global approach to trade liberalization through GATT; like Wonnacott he feared the consequences of a purely bilateral approach to trade, especially a Mexico-U.S. agreement from which Canada were excluded. He also stressed that the maquiladoras were there to stay but that Canadian capital had an insignificant presence in Mexico, with only a few Canadian firms among the more than 1 700 maquiladoras. With Canada excluded from an agreement, additional foreign capital from the U.S. and the Far East would continue to funnel into the maquiladoras rather than into Canada. Hart did not explain how Canadian participation in a trilateral accord would alter that pattern, except to suggest that a North American wide agreement would minimize the impact of any trade and investment diversion and enable Canada to make a contribution to any provisions on major issues such as rules of origin. He also contends that a trilateralization of the FTA would enable Canada and the other participants to deal more effectively on a continental basis with the perennial issues of subsidies, countervailing duties, government procurement, and intellectual property, which the U.S. failed to obtain in the Canada-U.S. accord but which American negotiators and U.S. spokeswoman Carla Hills have made clear they wish to have included in any agreement with Mexico. Hart's contention that Canada and Mexico have a certain degree of common interest vis-a-vis the United States is correct only to the degree that Canada and Mexico have historically been peripheries dominated by the centre. That historical fact does not mean that Canada and Mexico have common economic and political issues; indeed, the political and cultural values and institutions of Canada and Mexico bear virtually no similarities.

The Simon Fraser University economist Richard Lipsey entered the early fray with a shorter and much less comprehensive position paper in 1990 for the C.D. Howe Institute. Although briefer and less persuasive, Lipsey's *Canada at the US-Mexico Free Trade Dance*:

Wallflower or Partner? advances the same arguments as Hart's study, concentrating on the potential losses to Canada if it fails to do so and the potential gains if it makes its presence felt. As in 1988 with the Canada-U.S. FTA, Lipsey suggests that a trilateral free trade agreement would increase Canadian economic growth, raise real income, stimulate American purchases in Canada of both domestically produced and imported products. Like Hart, Lipsey contends that failure to participate for Canada would result in the possibility of trade and investment diversion to the United States. Like Wonnacott, Lipsey anticipates the dangers inherent in any hub and spoke approach to trade liberalization. He consequently suggests that the basic core of the Canada-U.S. FTA be used as a kind of model for negotiations with Mexico and later other nations in order to preserve what he sees as Canadian gains in the original agreement. What is most important to Lipsey is the transformation that has occurred in the international context: the communications revolution, globalization of production and competition, the impact of changing consumer tastes in encouraging the developing of more flexible manufacturing, globalization of direct investment, and the significant increase in the scope and scale of service economies in the past several decades.¹¹

Such views are reflected in the 1990 comments by Fred Blaser, senior manager at Ernst and Young and Chairman of the Mexico-Canada Business Council: "The issue isn't where Canadian companies will put their factories. The issue is where will multinational companies with North American investments go? Without continental free trade, many companies will prefer to invest not in Canada but in the U.S., which will have access to all three North American markets."¹² Some leading Canadian businessmen have a broader vision. A prominent example is Gary German, senior vice-president of Noranda Minerals Inc. and chairman of the Canadian Council of the Americas; he has long been involved in Latin American develop-

11 Reitsma, *op. cit.* provides a thorough overview of the Hart and Lipsey Interpretations. See as well, Lipsey, "The Case for Trilateralism", In Steven Globerman, ed., *Continental Accord: North American Economic Integration* (Vancouver: Fraser Institute, 1991).

12 Christian Allard, "Mexico For Sale: Gringos Welcome", *Canadian Business* (November 1990), p. 75.

ment and been a vocal advocate for closer Canada-Mexico relations. German, who calls for an "increased dialogue" with Mexico, does not see the *Saltnastroika* in Mexico as only an opening for Canadian capital but an opportunity to work with Mexico for mutual advantage.

What is central to this paper, however, is the Canadian Government decision to enter the trilateral negotiations by requesting a seat in what had begun as a bilateral negotiation between Mexico and the United States. With the announcement by President George Bush of the U.S. decision to proceed with the Mexican negotiations, however, the main thrust of opinion in the Canadian business and diplomatic communities was that it was dangerous, as former Canadian ambassador to the U.S. Allen Gotlieb contended, "to sit it out." Prime Minister Mulroney informed *McLean's* magazine in June 1990 that although he anticipated the U.S.-Mexico talks would take years, Canada would get involved "if we feel that at any time our interest is required." Following Mexican commerce secretary Jaime Serra Puche's visit to Montreal to brief John Crosbie on the American talks, Crosbie indicated that Canada had no immediate plans to participate in the bilateral talks.

That was the public position of the Mulroney Government; but clearly behind the scenes there was much collective soul searching and wringing of hands in government circles. During the summer of 1990 the Canadian Government pondered its course of action. In Parliament, the Standing Committee on External Affairs and International Trade, chaired by John Bosley, began to collect data and evidence from across Canada, the United States and Mexico. Those hearings produced, predictably, a cross-section of business, labour and other special interest group views, many of which were hostile or at least cautionary in their comments about the implications of Canadian involvement.¹³

The Bosley hearings were preempted by the announcement in late September 1990 by Trade Minister John Crosbie that Canada would indeed participate as "a full partner" in the negotiations.¹⁴ Crosbie, in his optimism at that stage, indicated that he hoped the three countries would be able to reach an agreement by the end of 1991.

13 A number of Individuals, Including the author of this paper, were invited to make written submissions. For the hearings themselves, see *Minutes of Proceedings and Evidence of the Standing Committee on External Affairs and International Trade Pursuant to Standing Order 108 (2), an encarninauon of Canada-U.S. - Mexico trade Negotiations* (Ottawa: 1990).

14 *Maclean's*, October 8, 1990.

That decision was a defensive action by Canada. There seemed to be little significant interest in Canadian official or private circles in a trade agreement with Mexico, given the small amount of Canada-Mexico two-way trade and investment, even though Canadian Ambassador David Winfield has noted the increased Canadian interest in investing in the maquiladoras.¹⁵ Nor does Canada seem to have a significant global trade strategy, a difficult prospect at the best of times and made more complex by the current failure of the Uruguay Round of GATT discussions and the U.S.-European Community's agricultural trade subsidy war. In 1989 Canadian trade officials seemed confident that with the Canada-U.S. FTA already in place, Canada could look forward with confidence to the breakdown of tariff barriers against the rest of the world as well. Canada's traditional preference for multilateralism rather than strictly bilateral relations has nonetheless normally been balanced against the needs of the American relationship, and the current situation bears that out. Canada's presence at the bargaining table is strictly an effort to ensure that any gains made in the U.S.-Canada FTA were not lost, and the Canadian reaction may, as has been suggested by Molot, Eden, and Wonnacott, indicate that Canadian officials underestimated that Interest of the United States in multilateralizing the arrangement with Canada.¹⁶ Those officials may, in other words, have overestimated the value of the "special relationship" between Canada and the United States.

The decision by the Mulroney Government to participate in the negotiations may be a no-win situation and is certainly a calculated risk. The Conservative Government is one of the least popular governments in Canadian history; the two years since the conclusion of the Canada-U.S. FTA have been ones of recession. Whether or not that economic downturn is related to the FTA, the Canadian public mood is angry and frustrated over what is seen to be serious economic and constitutional mismanagement by the Mulroney Government. The Mexican negotiations were thus likely inevitable in order to protect the Canada-U.S. relationship, but they will almost certainly be a greater source of conflict for the Canadian Government than of enhanced support. Mulroney himself seems to have recognized that the edge of the abyss was at hand when he expressed misgivings to President Salinas during the latter's visit to Ottawa.

15 Winfield cited In Canadian Business (November 1990), p. 73.

16 Eden and Molot, "From Silent Integration to Strategic Alliance: The Political Economy of North American Free Trade", Presented at the annual meetings of the International Studies Association, Vancouver, B.C., March 22-24, 1991.

Although the Prime Minister himself may support a North American trade agreement, he correctly anticipated the hostility from the Liberal and New Democratic Parties, from the labour movement, from women's groups concerned about a further loss of jobs in Canada and the exploitation of semi-skilled female labour in Mexico, from human rights activists, and from those businesses fearing competition with Mexican industry. Having failed to understand the nature of United States foreign economic policy, however, Prime Minister Mulroney could not be expected to understand Mexico, its political and economic dynamic, or its historical relationship to the United States. As it has done in its other foreign ventures, the Conservative Government has plunged headlong into another area of American economic hegemony without global vision, historical understanding, or sensitivity to the desires and needs of Canadian society.