Ambitious Western Hemisphere Trade Agreement Could Help Shape Canadian Trade In The New Decade

In April, trade ministers from 34 countries of the western hemisphere will meet in Buenos Aires to continue negotiations to create the Free Trade Area of the Americas (FTAA). Initiated at the Miami Summit of the Americas meeting in December 1994, this enterprise is dedicated to establishing what will be the world's largest free trade zone, including 800 million people with a combined Gross Domestic Product of $US 11 trillion.

Just as NAFTA altered Canadian trade patterns during the 1990s, it can be expected that the FTAA will produce its own changes. However, these will likely be smaller and less painful than the industrial adjustments needed for NAFTA.

The most obvious change to be expected is greater orientation to western hemisphere markets. There is plenty of scope for improvement in this respect. Only 1 per cent of British Columbia exports were destined for South America in 1999, and 0.1 per cent for markets in Central America and the Caribbean.

If the FTAA is established as planned sometime within the next five years, it is likely to operate in parallel with NAFTA rather than replace it. While the FTAA may not go so far as NAFTA in binding its members within a single trading area, it is hoped that it can provide a consistent set of rules governing trade between almost all western hemisphere countries. The FTAA Declaration of Principles states the need to 'build on existing subregional and bilateral arrangements in order to broaden and deepen hemispheric economic integration and to bring the agreements together.'

Attempts have already been made to broaden hemispheric integration through NAFTA. In the 1990s, an effort was made to include Chile in the Agreement. That effort failed mainly because President Clinton was unable to muster sufficient support in the United States congress. It may be attempted again under the new U.S. president. In the meantime Canada and Chile have signed their own Free Trade Agreement that includes in its preamble a commitment to 'facilitate the accession of Chile to the North American Free Trade Agreement and to contribute to hemispheric integration.'

NAFTA is only one of the many subregional or bilateral agreements that will have to be discussed in FTAA negotiations. Other important regional agreements in place include the customs unions MERCOSUR (Argentina, Brazil, Paraguay and Uruguay), the Andean Community (Peru, Ecuador, Colombia and Venezuela), CACM (Honduras, Nicaragua, Guatemala and El Salvador), and CARICOM (including several countries in and about the Caribbean). Customs unions are trade agreements going a step further than free trade areas such as NAFTA, in that they establish common external tariffs with regard to third party countries.

B.C. Exports Relatively Little To Prospective New Free Trade Partners In FTAA

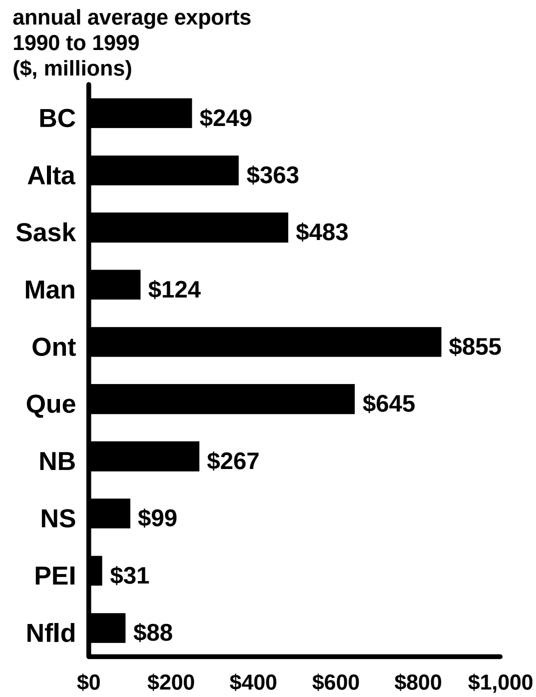
When NAFTA was being negotiated, the incentives for British Columbia were relatively clear – to open U.S. markets for British Columbia manufacturers of secondary manufactured goods, and to protect the province's existing resource product exports to its most important market.

Failure to be included within the North American Agreement would have meant that British Columbia exporters could have been faced with arbitrary barriers in the U.S. market, with no recourse to an effective dispute settlement mechanism. The experience of a continuing series of softwood lumber disputes has shown that protection to be less than perfect. However, even a flawed dispute settlement mechanism is better than none at all where the economic stakes for the province are so high.

The notion of protecting British Columbia's existing export trade is much less important in the case for adopting the FTAA than it was in the case for adopting NAFTA. The province has relatively little export trade with any western hemisphere country other than the United States. Even NAFTA partner Mexico accounted for just 0.1 per cent of British Columbia exports in 1999.

British Columbia ranked sixth among Canadian provinces as an exporter to western hemisphere countries outside of NAFTA. Official trade numbers indicate $172 million exported from British Columbia to these countries in 1999, compared with $945 from Ontario, $851 million from Quebec, $606 million from Saskatchewan and $447 million from Alberta. The relative ranking by province in these 1999 figures is much the same as the average over the past decade.

Exports to Western Hemisphere Countries Outside of NAFTA



BC STATS

Ontario's and Quebec's exports to prospective new partners in a hemispheric free trade zone have included far greater proportions of finished goods. The $945 million from Ontario, for example, included $553 million of machinery and equipment and $41 million of plastic products. The $851 million from Quebec featured $322 million of machinery and equipment and $33 million of plastic products.

Several provinces exported significant values of food commodities to prospective new FTAA partners in 1999. Saskatchewan shipped $325 million of wheat, $117 million of dried legumes, and $29 million of malt. Alberta shipped $146 million of wheat, $17 million of dried legumes, and $11 million of malt. Food exports from British Columbia to these countries included $5 million of animal fats, $2 million of wheat, and $2 million of dried legumes.

Most of British Columbia's exports to prospective new FTAA partners in free trade were its traditional forestry and mineral commodities. Of the $172 million total shipped from British Columbia to prospective new FTAA partners in 1999, pulp and paper products accounted for $61 million, and coal accounted for $43 million.

The most important destinations were Chile, Brazil and Venezuela.

Forty-nine million dollars of British Columbia exports went to Chile in 1999, more than to any other Latin American country including NAFTA partner Mexico. Chile's relative importance as an export destination can be explained in part by the Canada-Chile Free Trade Agreement. The province's exports to Chile included $12 million of pulp and paper products, $10 million of coal, and $4 million of lumber products.

The $47 million of British Columbia exports to Brazil in 1999 included $33 million of coal and $8 million of pulp and paper products. The $23 million shipped to Venezuela included $22 million of pulp and paper products.

Potential For the Future

While the present volumes of British Columbia exports going to prospective new FTAA free trade partners are relatively small, the Agreement could open possibilities for more and better export trade in the future. If South and Central American economies begin to grow at the double digit growth rates associated with East Asia over much of the past two decades, Latin America could soon become a very different type of market.

Even with substantial resource wealth of their own, countries in South and Central America could conceivably develop healthy import demand for selected forestry or mineral products. Their imports from Canada already include significant quantities of goods and services needed to process those resources.

As economies develop further in Latin America, they are likely to produce demand for a wider range of manufactured goods, including many of the high technology products that are emerging stars of British Columbia's export mix. The FTAA would reduce barriers throughout Latin America for British Columbia exporters of these products. Equally important, it would make the rules governing trade more consistent and dependable, reducing the risks of doing business in the region.

Goods exporters are not the only potential beneficiaries of consistent and reliable rules for conducting business in the western hemisphere. The attraction for investors can be seen in Chile, where the Canada-Chile Agreement has encouraged a number of companies from this province to invest heavily – among them Methanex, Finning, and several mining companies. With investment has come an increase in service exports such as technological consulting and head office support activities.

Adjusting To The Future FTAA Trading Environment

On the other hand, it could be argued that a hemispheric free trade zone would also mean more competition for British Columbia producers within Canada and in the all important United States market. This is unlikely to produce serious problems for Canadian manufacturers. U.S. tariffs are already low for raw or semi-processed resource commodities imported from any country, so that most Canadian exporters of these goods to the United States already compete in a market that is largely open to competitors from all over the globe.

Under NAFTA, Canadian manufacturers of secondary manufactured products have learned how to compete with sophisticated and well established American producers operating on their own turf, and with low wage Mexican producers.

The overall effect has been to push much of Canadian manufacturing upmarket, where the emphasis is on design, service backup and marketing. Having already adapted to this business environment, Canadian manufacturers are better prepared than they would otherwise have been to face duty free competition from South and Central America.

From the point of view of Canadian or American manufacturers, there are obvious advantages to securing duty free access to new sources of low cost components. Some of these components could find their way into products destined for European or Asian markets, providing a boost for Canadian and American exporters. And there is little doubt that consumers in Canada and the United States would enjoy the usual improvements in choice that can be expected from any reduction of barriers to trade.