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Ten Years of Free Trade in North America

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Prime Minister of Canada, 1984-1993

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**TEN YEARS OF FREE TRADE IN NORTH AMERICA:  
NAFTA, DEMOCRACY AND ECONOMIC DEVELOPMENT**

The Right Honorable  
BRIAN MULRONEY  
Prime Minister of Canada, 1984-1993

Keynote Address presented to the 1998 State of the World Conference,  
"Global Transitions: Building Democracies and Market Economies."  
University of Missouri-St. Louis, St. Louis, Missouri, May 15, 1998.

## **TEN YEARS OF FREE TRADE IN NORTH AMERICA: NAFTA: DEMOCRACY AND ECONOMIC DEVELOPMENT**

The fundamental goal of government is to make a better world--A world that is safe from war and safe for democracy, a world that is free from deprivation and free from degradation.

For 40 years, the United States and the Soviet Union were the world's two superpowers, the leaders of the West and East, of NATO and the Warsaw Pact, the keepers, in President Kennedy's words, of "a hard and bitter peace."

And then, in 1985, there came to power in the Kremlin a man named Mikhail Gorbachev, who questioned the assumptions of the Soviet system, ended the arms race and ultimately the cold war, disbanded the East bloc, the Warsaw Pact, and finally the tyranny of the Soviet federation itself. Sitting across a conference table from him in a private meeting in the Kremlin, just hours after he assumed office in March 1985, I would never have thought it possible. Flanked by Andrei Gromyko, this new leader of the Soviet Union spoke to me with confidence of the future, but gave precious few indications of the convulsive changes he was about to unleash--so profound, as it turned out, that he and his administration and his federation would be consumed by them.

For Canada and the United States, the post-cold war world offers unique opportunities and daunting challenges. We begin from a common heritage of democratic traditions and a common defence of liberty. There are reminders of that from the trenches of one war to the beaches of the next, places inscribed in the history of valour, where Canadians and Americans have fought together, where Canadians and Americans have died together, in the defence of freedom.

And because we and our allies have remained true to those values and had the courage and the strength to defend them in NATO, Korea, the Gulf and elsewhere, within the last few years, the Berlin Wall fell and Germany was reunited; a trade unionist from Gdansk became President of Poland; a dissident poet sat in the castle in Prague, as communist regimes tumbled like dominoes across Central and Eastern Europe; and, in the second Russian revolution, the people of Moscow made a human wall around their parliament, and Soviet tanks that had crushed each stirring of liberty for seven decades in the past, now, dared not cross.

Canada and the U.S. are in the vanguard of industrialized nations building a foundation of economic growth and prosperity in which justice and freedom can flourish both at home and around the world.

For generations, the United States and Canada have made common cause for both. For example, Canada and the United States are by far one another's largest trading partners.

Last year, we conducted over \$380 billion in two-way trade between our two countries--over \$1 billion per day--the largest such commerce between two nations in the history of the world.

Canada buys more U.S. products than the fifteen countries in the European Union combined! In fact, the U.S. exports more to the Canadian province of Ontario than it did to the nation of Japan!

More than two million jobs in each country depend directly on trade with the other. And that trade has been growing steadily, from both countries, to both countries, since we implemented the Canada-U.S. Free Trade Agreement that I negotiated with President Reagan in 1988.

Canada is Missouri's largest foreign export market. In 1996 they traded \$4.5 billion worth of goods.

Missouri's exports to Canada increased by 54 per cent in 1996 over the previous year. Sales of transportation equipment more than doubled, reaching \$1.5 billion in 1996.

Missouri's exports of industrial and agricultural machinery totaled \$160 million. It also sold over \$150 million worth of other equipment and tools.

Missouri sold Canada \$175 million worth of chemical and allied products while Canada supplies Missouri with forest and farm products.

Trade creates jobs--good jobs, high paying, durable jobs. Every \$1 billion in trade abroad means between 15,000-20,000 new jobs at home. And that's what the NAFTA debate has been about--jobs and the future.

To be successful, a FTA must benefit both sides. This one clearly does and I believe NAFTA will strengthen all three parties.

The Free Trade Agreement between Canada and the U.S. came into effect on January 1, 1989.

At about this time the new President of Mexico began articulating his vision for the modernization of the Mexican economy.

The cornerstone of that great initiative was to be a Free Trade Agreement between Mexico, the United States and Canada.

In Mexican terms, the concept was revolutionary and marked a dramatic break with many past policies.

In global terms, the concept was unusual in that it marked the first attempt to link, within a free trade zone, the economies of two mature, wealthy, trading countries (both G-7 nations) with that of the equivalent of a developing nation, with relatively limited democratic achievement in terms of politics, public policy, the judiciary and business leadership--when compared with the U.S. or Canada.

NAFTA was successfully negotiated and signed in San Antonio in October 1992 by the Presidents of the United States and Mexico and myself.

Based on the Canada-U.S. experience, NAFTA has opened up the Mexican market of 100 million people, creating the largest, richest, single market in the world--390 million people accounting for one-third of the world's output, approximately \$8 trillion per year.

The future looked brilliant as the Mexicans opened their economy for the first time and trade expanded by 25% during the first twelve months. But, the enemies of democracy knew that political instability will damage the cause of social justice.

I was in Mexico City the day Luis Donald Collasio was assassinated. This was an enormous tragedy for Mexico.

Later, powerful tragedy struck again, almost suffocating in its wake the great economic advances and structural changes of recent years. In fact, Mexicans are beginning to emerge from a period of tremendous anguish, resulting from the peso collapse to new political assassinations.

But, because of the strength of the Mexican people and the resolve of their nation, they will survive this and other challenges and Mexico will pursue a course towards greater democracy, justice and prosperity.

One day, NAFTA shall embrace 750 million people and the U.S. and Canada will have defined new roles for themselves at the very heart of a new free trade zone that is dynamic, innovative, prosperous and influential.

There is already significant evidence of progress. Last month, the *Wall Street Journal* reported an analysis of NAFTA-Free Trade in the following manner:

The most significant obstacle to the U.S. further extending its trading relationships has been domestic political challenge posed by vocal critics who assert that freer trade destroys jobs.

In the U.S., whose economic expansion is beginning its eighth year, unemployment has reached its lowest level in a quarter century. Canada, emerging from a long recession, is anticipated to have the highest growth rate of all G-7 countries in 1998; its unemployment rate dropped dramatically in December, to the lowest level in seven years. Mexico, which only two years ago experienced its worst single-year economic decline since the Great Depression, rebounded in 1996 and 1997 to its best performance since the 1970s. Its economic growth was 7% last year; inflation is declining; its stock index is more than 20% higher than it was a year ago. Unemployment in the main cities is now below 3.5%.

Why is this so important to you? Well, just 2 years ago Latin America purchased \$92 billion in U.S. goods. In comparison, the European Union purchased \$103 billion.

But, from 1987 through 1993, U.S. exports to Latin America grew at an average rate of 21%. That's twice the growth rate of your exports to the EU.

You sell more to Chile, with 14 million people, than to India, with 920 million people. You sell about as much to Costa Rica as you do to all of Eastern Europe. By 2010, the U.S. will be exporting more to Latin America than to Europe and Japan combined.

Since NAFTA, the amount of trade between the United States and Mexico has increased significantly. In 1993, U.S.-Mexico merchandise trade was \$81.5 billion. In 1995, it was up to \$107 billion, and it had reached \$107 billion again in only the first 10 months of 1996.

Since the Miami Summit and the decision to expand Free Trade throughout the hemisphere by 2005, a \$13 trillion market (at that time) from Ellesmere Island to Tierra del Fuego now awaits North America's entrepreneurs and business community.

But, there is a heavy cloud on the horizon. The momentum under American leadership is in the process of being lost--although recent developments at the Summit of the Americas in Santiago tend to be more promising that this will change.

Chile, which was to be the next NAFTA partner, has been stiffed and the pledge of fast track negotiations disappeared in the vapour of election-year politics. President Clinton was in fact denied this vital authority by members of

his own party in the House of Representatives. As a consequence, Latin American countries are now making major trade deals that exclude the United States.

A customs union known as MERCUSOR has emerged among Brazil, Argentina, Uruguay and Paraguay. Their economies produce almost \$1.5 trillion, 70% of South America's total.

MERCUSOR is prospering. It has signed a Free Trade Agreement with Mexico, is discussing one with Canada (which has just signed a FTA with Chile) and with Europe by the year 2005.

This trend away from American leadership is ominous and must be reversed. To handcuff the President of the U.S. at the very moment that international trade sweeps forward as the greatest liberalizing and modernizing force the modern world as known, is to do an enormous disservice to this great nation and the goal of increased prosperity and social justice around the world. This can be corrected by granting fast track authority to President Clinton and proceeding now with the commitments to hemispheric free trade made at the Miami Summit. Leadership cannot be subcontracted out at convenient times. The Congress should act promptly to restore to the President this vital instrument of world leadership.

But I believe America's future prosperity will depend principally on how well its trade develops in two specific areas:

- (1) in this hemisphere; and
- (2) in China and East Asia.

Specifically, there is now an unparalleled opportunity for North American investors and manufacturers in China and throughout East Asia.

I say this in spite of the recent economic collapse in some countries in the region and melt down in others. And I acknowledge readily that serious problems continue to afflict these economies.

For example, Diane Francis has pointed out:

Corruption is also at the core of the catastrophe in Indonesia, Malaysia, Japan and South Korea.

Huge payoffs to organized crime were a factor in banking problems and the collapse of Japanese financial institutions, including brokerage giant Yamaichi Securities Co. Inc.



Some politicians handed out contracts or favors to friends or foreigners for bribes.

Such politicians also plague Africa, Latin America and Eastern Europe, aided and abetted by corrupting companies.

The world needs a standardized set of ethical guidelines relating to commercial rights as well as human rights.

And will now get one with the new OECD Treaty that will bring most major industrialized nations into line with the American Foreign Corrupt Practices Act, enacted by Congress 20 years ago.

But the situation in South East Asia will improve. Over time this region will recover and regain its economic energy and promise.

This recovery will accelerate with the evolution of APEC--the Asia Pacific Economic Cooperation forum--founded in 1989 by some 18 Pacific nations including Canada and the U.S.

Meeting in Osaka in 1995, APEC leaders agreed on a wide-ranging agenda.

And the following year in Bogor, Indonesia, they took an historic step forward in making a commitment to achieve free and open trade and investment in the region by 2010, only 12 years from now. This was further advanced at Vancouver last fall.

What consequences will flow from this major decision?

One can easily imagine them by looking at the economic and social improvements in Europe that resulted from the EC. Few things more beneficial to ordinary people across Europe have been done in modern history and the same can be said of the FTA.

The base of China's great power status will be economic. China's economy has quadrupled since the introduction of reforms less than 20 years ago.

Some U.S. \$40 billion in foreign investment found its way to China last year, representing half the total of FDI in all developing countries.

Given China's rate of growth and the size of her population, China will be the largest economy in the world, probably in the year 2025--only 30 years from now! It is not a question of whether, but of when. How could it be otherwise when the population of China, in the period 1990-2010, will increase by the

equivalent of the total present population of the U.S., to 1.4 billion. In fact, former Premier Li Peng told me in Beijing last year that China was adding to its population base the equivalent of one Australia per year!

Consider that--a country where annual population increases approximates that of the State of New York or Texas--and then think of it as a market opportunity!

GDP per capita will remain quite low compared with industrialized nations but it will increase fourfold during the same period. And perhaps one of the most important statistics of all affects the important threshold personal income figure of \$5,000 U.S.

During the period there will be an increase from less than 5 million to over 550 million people earning this amount. This explains clearly where the money will be coming from to pay for the imports China needs.

If China maintains anything like its current rate of growth, it will need, before the turn of the century, new electric generating capacity equal to that of Japan today. A new James Bay Hydro Project is required every year. Urgent and compelling needs exist for transport, telecommunications, petrochemicals, ports, airports, and indeed virtually all categories of infrastructure.

As Ambassador Winston Lord recently pointed out: "The potential is awesome--to take just one example the huge Asian infrastructure projects looming ahead for the rest of this decade are roughly equivalent to building 15 Santa Monica freeways every day."

As should be evident, America's future prosperity is now inextricably linked to its capacity to trade and invest in existing and emerging markets close to home and far away.

Years ago, Thomas Macauley stated: "Free trade, one of the greatest blessings a government can confer on a people, is in almost every country unpopular."

Such decisions, therefore, are never easy. But leadership demands that a clear decision be taken. As Yogi Berra said: "When you come to a fork in the road, take it"! Such achievements derive from vision, which require the courage to take decisions not for flattering headlines in ten days but for better countries in ten years.

Canada and the United States are different countries--different in size, different in history and, often, different in outlook. But, still, we have much in common. We share the universal values of liberty and democracy. We have built

two of the most civil and prosperous nations on earth and have made a large contribution to peace and prosperity around the world. Indeed, the Canadian-American relationship is, as Winston Churchill described it more than a century ago: "That long frontier from the Atlantic to the Pacific oceans, guarded only by neighborly respect and honorable obligations, an example to every country and a pattern for the future of the world."

The V.E. celebrations of the victory over Nazism over 50 years ago and the V.J. celebrations in August of the same year would never have taken place without the U.S. and her principal allies.

The United States is respected for its unrivaled military power, its extraordinary scientific achievements and its historic economic gains. Americans are admired around the world for the vibrancy of their democracy, a democracy nurtured and sustained by idealism and by principle.

The simple reality of world affairs now is this: Without U.S. leadership and the support of her allies there would have been no peace in the Middle East, no hope for peace in Northern Ireland, no restoration of peace in Haiti and no promise of peace in the Balkans.

It simply would not have happened. Only the U.S. has the unique combination of vast economic strength, extraordinary military power and a history of willingness to assume burdens in the defence of freedom.

Never let anyone sell you on the allures of isolationism and protectionism. They are the twins of regression and the joint guarantors of America's assumption of a lesser status in the world. You must resist this at every turn.

Your economic well being depends on forceful world leadership that enhances peace and our open trading system.

Therein lies the role for enlightened American political leadership and growing American prosperity.

For me, the strength of the United States-- and your future greatness--was best captured in remarks by Judge Learned Hand to a group of immigrants almost 50 years ago:

The spirit of liberty is the spirit that is not too sure it is right. The spirit of liberty seeks to understand the minds of other men and other women. The spirit of liberty weighs their interests against its own without bias. The spirit of liberty knows that not even a sparrow falls to earth unheeded. The spirit of liberty is the spirit of Him who, 2000 years ago, taught mankind a lesson that it has never quite learned and never quite forgotten--

that there may be a kingdom where the least shall be heard and considered side-by-side with the greatest.

In the mind of this Canadian, that is the spirit that, if maintained, will continue to make of this nation the greatest republic the world has ever seen.