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CANADA-MEXICO ECONOMIC RELATIONS SINCE NAFTA: A CANADIAN PERSPECTIVE

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The free trade agreement between the U.S., Canada and Mexico had essentially the same objectives for the latter two countries: to have broader and securer access to their main market and create a more favorable environment for an outward-oriented economic growth. Canada's request to officially take part in negotiations between Mexico and the U.S. has been justified as tactical. Canadian authorities sought to improve several of the recently implemented clauses of the Canada US trade agreement such as the dispute-settlement procedure. By taking part in these negotiations, the Canadian government wished to improve the North American rules of origin. The North America Free Trade Agreement (NAFTA) had, however, two positive effects on Canada-Mexico relations. It created more dynamic trade relations between the two countries and it played the role of a cooperation "catalyst", transforming a friendly relationship into a strategic partnership.

Market liberalization and harmonization of necessary regulations in the North American region, which may be qualified as an "emerging regime", obviously played a great role in this new cooperative relationship. Mexico became, to Canada, a potential strategic partner with which it wished to develop closer economic and diplomatic relations, as well as approaches, if not solutions, to problems of common interest. This relative closeness has also enabled both countries to gain a better understanding of each other and to establish a permanent mutual dialogue that is equally beneficial to both businesses and civil associations, as well as both countries' population in general. Finally, with its own international policy agenda, Canada possibly intends to use its partnership with Mexico to extend its relations with other countries of Latin America, as well as to assert its own interests and mark its values in the institutions of an emerging community of the Americas.

This new Canadian-Mexican proximity is therefore not only visible on a commercial basis, but also on a political basis. And everything indicates that bilateral, economic, cultural and, above all, diplomatic relations between these two countries will continue to expand and increase in the future. However, if in a short period of time these relations had seen, from the Canadian government's perspective, "spectacular" developments, we can not underestimate the fact that, because the U.S. is economically and geographically occupying a central position in the northern part of the Americas and in the south of the Western Hemisphere, relations between these two countries will always remain secondary to those Canada and Mexico have separately with their powerful and hegemonic neighbour. Another important issue is the strategic partnership that Canada intends to have with Mexico, is held in the context of competitive integration into the global economy. Trade matters are not only a main priority of both countries, but each plays, outside of their relationship with the U.S., their own trade game on the continent and elsewhere, as is shown by numerous trade agreements that both countries have signed or are presently negotiating. Finally, bilateral economic relations between Canada and Mexico, having seen substantial developments since NAFTA took effect, are to be seen in the context of a "deep integration" process in the Americas, a framework in which integrative dynamism comes more from corporations than governments.

Considering these remarks, we will try in the following pages to bring bilateral Canada-Mexico relations back into the context of NAFTA and to draw up a first report. The text is divided into two major sections. In the first section, we will examine bilateral relations between Canada and Mexico from a historical perspective and a Canadian perspective. It is also from a Canadian perspective that we will examine in the second section economic relations between the two countries, particularly in the context of integration, in which not only two, but three countries are involved in the game of competition. Two conclusions come out of this study. First of all, with regards to commercial and strategic Canadian government objectives, results are quite weak and do not quite reach their expectations. Second, Mexico, so far, has benefited more from this new partnership than Canada, a result that questions the strategy adopted by the Canadian government to assert its values and interests in the Americas.

CANADIAN-MEXICAN RELATIONS

AN HISTORICAL AND POLITICAL PERSPECTIVE

From the Third Option to the Free Trade Agreement

It was during the Second World War, in 1944, that Canada first established diplomatic relations with Mexico. Relations between the two countries did not, however, have any significant developments before the 70's. Canada had, until then, paid little attention to what was happening in Latin America.

The joint wishes of Canada's Prime Minister P.E. Trudeau and of Mexico's President L. Echeveria for their respective countries to play a more important role in the international scene and reduce their economic dependence on the U.S. favoured harmonization and the development of closer relations[2]. A first step had already been made in this direction with the creation in 1968 of the Canada-Mexico Joint Ministerial Committee. Becoming a cornerstone of this closeness, this committee would be, and still is today, the main forum for cooperation, discussion and exchanges between the two governments on economic, political, commercial and cultural matters of mutual interest. The White Paper of 1970, *Politique étrangère au service des Canadiens*[3], first stated a strategy for Latin America that would later reinforce the geographical trade diversification policy conducted during the Third Option and the North-South intermediation policy the Canadian government would pursue. The latter policy's main objective was to increase economic trade with the rest of the continent, privileging relations with Mexico, Brazil and Venezuela. It also aimed, among other goals, to develop a "properly Canadian attitude towards problems in the American hemisphere", to contribute to economic development in Latin America, to encourage cultural and scientific exchanges and to facilitate a better mutual understanding[4].

In August 1971, measures taken by Nixon, with important consequences in both Canada and Mexico, and the tense relations with the U.S. that followed the adoption of more nationalist policies by both countries had the effect of bringing Canada and Mexico much closer.[5] For example, they would incidentally adopt a similar position on issues with Cuba, Chile, and later, conflicts in Central America. Both countries were seeking at the time for a "third way", i.e. to break away from American economic and political influence and to find their place in an international system, then divided East-West on one axis, and North-South on the other. In Canada, this redefinition of foreign policy would take place in the context of what would commonly be called, since 1972, the "Third Option"[6]. In Mexico, it would take place, under the presidency of L. Echeveria (1970-1976), in the context of the

[2] For this topic, see Cary HECTOR (dir.), *Canada-Mexique : autonomie et interdépendance dans les années 80*, Montreal, Research note no. 37, Political Science Department, May 1989.

[3] Canada, Secrétariat aux Affaires étrangères, *Politique étrangère au service des Canadiens*, Ottawa, Approvisionnements et Services Canada, 1970.

[4] We will notice that at that period, Canadian exporters and investors were asked to respect host countries' policies and interests.

[5] See, D. BRUNELLE et C. DEBLOCK., " Le Canada, les États-Unis, le Mexique et la continentalisation de l'économie nord-américaine ", in *Cahiers de recherche sociologique,* vol. 6, no 1, Spring 1988, pp. 63-78.

[6] See, D. B. DEWITT and J. J. KIRTON, *Canada as a Principal Power,* Toronto, John Wiley & Sons, 1983; André DONNEUR, *Politique étrangère canadienne*, Montreal, Guérin édition, 1994.

implementation, of what an author called a "new foreign policy"[7] This policy, aimed to resolve the economic and political crisis in the country, was meant to defend Mexico's financial autonomy, by leaning for instance on the oil sector, and therefore to improve the country's negotiation capacity in international forums, while also distancing itself from the U.S. with respect to foreign policy in Latin America[8].

Despite the measures imposed and concerted efforts, neither Canada nor Mexico succeeded, in any case, to be really independent commercially or economically from the U.S. The decline of commercial operations by Americans in both countries was considered to be more a "temporary phenomenon"[9] than a lasting phenomenon. In addition, the political and diplomatic proximity between the two countries was not really based on commercial trade, which remained of low importance during the 70's. Not until the 80's, with the signing of an oil agreement between Canada and Mexico in 1980, would commercial trade links really increase; imports from Mexico raised considerably. This having been note, in 1980, Canada represented barely 1.7% of Mexico's imports and 0.8% of its exports. In 1989, these percentages were 1.2% and 1.7% respectively[10]. According to Canadian sources, in the same year Canadian exports to Mexico increased to $610 million Canadian and imports were at $1 705 million. At the time Canada was Mexico's 4th largest market for exports and the 5th largest supplier for imports, whereas Mexico was only the 16th largest market for Canada's exports and the 9th largest supplier[11]. As for investments, the results would not be quite as good and would even decrease during the 80's.

Because the results were not quite as good as expected, Canada would once again abandon the Latin America market during the 80's, particularly Mexico, while still taking part politically in the Contadora peace process in Central America, as did Mexico, whereas the Reagan administration had opted to support the Contras. The debt crisis and economic crisis that would follow, would only push investors and businesses further away from the region. At that time, the main focus of the Canadian government, lead by Prime Minister Brian Mulroney, was on three major priorities : constitutional reform, economic reform to get out of the crisis and trade negotiations with the U.S. Similarly, Mexico would have essentially the same priorities, starting with economic and trade reforms that the De la Madrid administration (1982-1988) would undertake as political and constitutional reforms would be implemented with a "cautious" gradualism mainly in the next decade.

The new Mulroney administration, after its election in 1984, proceeded rapidly in re-examining Canadian economic and foreign policy[12]. The *Agenda for Economic Renewal* established new economic priorities for the government, focusing particularly on the reduction on the budget deficit, the increasing role of the market and the suppression of "obstacles from public authorities opposed to private sponsorship" in order to revitalize the economy. A while later, in Spring 1985, a green book, *Competitiveness and Security*, was

7 Mario. OJEDA, *Alcances y limites de la politica exterior de México*, Mexico, El Colegio de México, 1984, p. 188 and following.

8 For U.S.-Mexico relations, such as from the 60's to the beginning of the 80's, refer to Clark W. REYNOLDS and Carlos TELLO (eds.) (1983), *U.S.-Mexico Relations, Economic and Social Aspects,* Stanford, Stanford University Press; especially see the synthesis of Mario OJEDA (1983), "The future of Relations Between Mexico and the U.S.", in Reynolds and Tello (eds.), pp. 317-322.

9 J. Z. VAZQUEZ and L. MEYER, *México frente a Estados Unidos. Un ensayo historico, 1776-1980*, Mexico, El Colegio de México, 1982, p. 214.

10 In-bond industries not included.

11 Dan CALOF, "Trade with Mexico", Statistics Canada, 65-001, January 1991, pp. xi-xxi.

12 For that period, see D. STAIRS and G. R. WINHAM, *Quelques problèmes concernant l'élaboration de la politique économique extérieure*, Ottawa, Les Études/Commission sur l'union économique et les perspectives de développement du Canada, Ministre des Approvisionnements et Services, 1986.

published by the government to demonstrate that it would from then on give main priority to economic and trade issues for its foreign policy, focusing on the bilateral relation with the U.S., who were receiving preferential treatment. In this manner the way was paved for the Free Trade Agreement with the U.S., signed on January 2nd 1988 and which would come into effect the 1st of January 1989.

In Mexico, the debates on the "unbearable" external debt and the exhaustion of the Import substitution model (ISI) adopted since the 40's had, since the last years of the Lopez-Portillo administration (1976-1982), opened the path to the exploration of new strategies for economic growth. It was incidentally with the coming of De la Madrid (1982-1988) and during the spectacular debt crisis and the fall of oil prices that Mexico's economic and trade policy would change drastically and interest in free trade would increase considerably, beginning with a growing subscription to multilateralism in 1986 upon entry of the country into GATT and the formal study of a bilateral agreement with the U.S., its "natural market", in the second half of the decade, mostly under the Salinas administration (1988-1994)— even though the option had been discussed for almost a decade now. Entry into GATT as well the prospect of an agreement with the U.S. would coincide with an era of reform in Mexico, moving the economy from interventionist state policies to a dynamic of liberalization. These reforms would be essentially implemented on two levels, starting with domestic restructuring, dismantling, privatization and relaxation of rules relating to internal competition. For this type of restructuring of the domestic economy the government had opted for a selective interventionism on the industrial plane, consisting of stimulating the development of the manufacturing production ensured by the private sector and intended mainly for foreign markets, and would attempt to reduce the countries' vulnerability to the fluctuation of oil and agricultural goods' international prices. On an international level, these reforms would be completed by liberalization of Mexico's trade regime and the gradual displacement of trade barriers.

Finally, it must be emphasized that free trade with the U.S was never presented in Mexico as an exceptional event. The agreement would be part of the official rhetoric of pursuing the implemented reforms as well as the country's trade axis diversification project. Mexico signed, in 1991, a free trade agreement with Chile, announcing that negotiations with the U.S were being conducted in parallel with initiatives taken toward Latin America, Europe and Pacific-Asia. Many analysts saw in the agreement with Chile an attempt to mold public opinion and to disperse resistances in the prospects of a much more important agreement that would follow: NAFTA. Also, the Mexican government attempted to minimize the significance of this agreement and to carefully handle national sensibilities in Mexico. Mexican citizens were upset at the prospect of such an important harmonization with a country from which Mexico was, at least since the period of Revolution, seeking to keep its distance. The Salinas government asserted its interest in developing stronger economic and political relations with Canada, and, using the same rhetoric as Canada, eventually argued that adhering to NAFTA would enable it to defend and to secure its trade position vis-à-vis the U.S., while regionalism corrected competition and trade diversion effects that double bilateralism could have induced between Canada and Mexico. The Salinas government also highlighted the fact that an economic cooperation based on complementarity would give much more bargaining power to both countries over the U.S. It can not be forgotten that for Mexico, as for Canada, the option for regionalism was presented in the context of efforts undertaken towards multilateralism and the consolidation of a North American market would have constituted for both countries a kind of springboard to new markets.

From Canada's perspective, NAFTA can also be viewed as a continuation of foreign policy objectives in Latin America, defined since 1989. Following the previous administration's multilateralist and internationalist approach, the government would adopt, in 1989, a new strategy for Latin America which would lead to Canada's membership to the Organization of American States (OAS) in January 1990. On February 1st 1990, the Secretary of State for External Affairs, Joe Clark, would expose the five major objectives of this strategy, which were : (1) Development of foreign trade; (2) Payment of the national debt; (3) Fight against drug trafficking; (4) Maintenance of peace; (5) Help developing countries. He also claimed that Mexico would be the "key to Canada's strategy in Latin America", a point that would be reaffirmed by Prime Minister Mulroney during his official visit to Mexico in March 1990. This strategy, however, would be altered by forthcoming events[13]. First, by the announcement made in June of the same year by the presidents of the U.S. and Mexico to open bilateral trade negotiations and then two weeks later by President Bush's launch of the Enterprise for the Americas Initiative which would prepare the Americas for integration.

The canadian request to take part in these negotiations was accepted. It had even been strongly supported by Mexican President Carlos Salinas during his official visit to Canada, in April 1991, to plead in favour of a North America free trade agreement. Launched officially on June 12th 1991, trilateral negotiations would be concluded on August 12th 1992[14]. Finally, after several brief negotiations during the period of March to June of 1993 to fulfill the requests of the new American presidency with respect to environment and labour matters, the North America Free Trade Agreement was ratified by the three countries to become effective on January 1st 1994 as originally desired. As for the Enterprise for the Americas Initiative, even if was not as successful as expected, it had however contributed to change the United-States' image in Latin America and to establish the foundations of a new economic partnership in the Americas, a formula that will be taken in account by President Clinton when launching his free-trade project for Americas in Miami in December 1994.

From Free Trade to Strategic Policies

The Mulroney Administration reoriented Canada's foreign policy to focus mainly on economic and trade issues, then the government's top priorities. Leading the country again in 1993, the Liberal Party of the Canadian government, headed by Jean Chrétien, proceeded rapidly to re-examine this foreign policy, not to make any fundamental changes to it as he had promised during his electoral campaign, but rather to better target the priorities and adapt them to the new international context that resulted from the end of the Cold War, and also in the prospects of eventually expanding NAFTA over the entire continent. Even though this scenario would not be considered a main discussion topic during the Summit of the Americas in December 1994, the ambitious four section proposal (democracy, trade, poverty and environment) that was adopted at the Summit, nevertheless marked a major turning point in interamerican relations. The success of the Uruguay Round in 1994, which consequently

[13] For this topic, see P. MCKENNA, "Needed: A Policy for Latin America", *Policy Options*, 1993, May 14th, pp. 27-28; E.J. DOSMAN, "Canada and Latin America : The New Look", *International Journal*, XLVII, Summer, 1992, pp. 529-554; M.A. CAMERON (1991), "Canada and Latin America", in F.O. HAMSON and C.J. MAULE (dir.), *After the Cold War, Canada Among Nations 1990-1991*, Ottawa, Carleton University Press; G.W. SCHUYLER, "Perspective on Canada and Latin America : Changing Context...Changing Policy", Journal of Inter-American Studies and World Affairs, vol.33, no.1, Spring, 1991.

[14] See Sylvia MAXFIELD and Adam SHAPIRO (1998), "Assessing the NAFTA Negotiations, U.S.-Mexican Debate and Compromise on Tariff and Non-tariff Issues", in Carol WISE (ed.), *The Post-NAFTA Political Economy, Mexico and the Western Hemisphere,* University Park, The Pennsylvania State University Press, pp. 82-118; Hermann von BERTRAB (1997), *Negotiating NAFTA, A Mexican Envoy's Account*, Washington, DC, Center for Strategic International Studies.

created the WTO, was another significant event for the global economy as was the signing of GATT.

It was in this new context that the federal government would publish, in February 1995, its foreign policy framework document, *Canada in the World*. Stressing its economic concerns, this text establishes three priorities for the Canadian foreign policy : (1) promote employment and Canadian prosperity; (2) protect the security of Canada; (3) promote Canadian values and culture. In order to promote employment and Canadian prosperity, the government would seek to have a more dynamic trade policy, better targeted and based on a more strategic evaluation of Canadian interests in the world. This approach defined three guidelines for Canada's trade policy : (1) to define more clearly the global economic priorities, mostly in Canadian export markets, to expand its traditional markets, as well as to intensify economic ties with strongly growing foreign markets; (2) to elaborate means to target more efficiently public programs and resources in order to help Canadian corporations conquer new markets; (3) to promote a national economic environment that is both appealing to foreign investments and favorable to growth based on exports.

It is in the context of this new approach directly oriented on market globalization and partnership with the private sector that we can recount the several initiatives that would be undertaken, such as the implementation, in October 1995, of Team Canada, a governmental structure whose objectives where, among others : (1) to identify markets and sectors of priority; (2) to centralize and provide all useful information to domestic exporters and investors; (3) to enable them, through commercial attaché networks in particular, to have better conditions to access to foreign markets, to be more aware of evolutions and opportunities, as well as to give them an enhanced protection against discriminatory or anticompetitive measures, and to organize trade missions abroad; and finally, (4) to coordinate operations of different ministries, such as the Department of International Trade and Industry Canada, societies (for example, the Export Development Corporation), agencies (Canadian International Development Agency, CIDA), and other participants in the field of international economic affairs[15].

Canada's International Business Strategy[16], sets the new partnership guidelines the government intended to establish with the private sector. A summary of the guidelines are : (1) permanent consultation with the private sector for the definition of priorities; (2) widely released information rapidly available to corporations; (3) sensibilization of corporations to commercial perspectives offered by the opening up of market globalization. Thus, willing to link national growth to developments in the international market, the government was undertaking two complementary directives : the promotion of Canadian commercial and economic interests abroad as well as making Canada attractive for foreign investment on one hand, and, on the other, to strengthen and respect the clear rules of international trade for trade and investments[17].

[15] On this topic, see document Department of Foreign Affairs and International trade, *Canadian Strategy for 1996-1997 international trade, Overlook*, (Ottawa, Team Canada, 1996) which contains the basics of federal government commitment toward Team Canada et Canada's trade priorities for the next ten years, *Ouvrir des portes sur le monde : priorités du Canada en matière d'accès aux marchés internaitonaux* (Ottawa, 1999)
[16] Team Canada/Équipe Canada, *Canada's International Business Strategy*. 1996-1997, Ottawa, 1995
[17] In the field of promotion and protection of foreign direct investment, Canada negotiated 26 agreements between 1989, the year the program was launched, and 1999. The most general one negotiated with the U.S. and Mexico in the context of NAFTA serves as a model.

A brief overview of this strategy, at least of its commercial dimension, can be found in a text on Mexico, *Mexico Trade Action Plan* [18]. In this text, the government divides its plan into five fields : (1) Market information and analysis; (2) Market intelligence; (3) Market access; (4) Outreach and Awareness; (5) Trade promotion events. In addition, the department identifies five priority sectors for Mexico, such as advanced manufacturing technology and industrial machinery, information technology and other advanced-technology products and services, agriculture and agro-food, automotive maintenance equipment and aftermarket parts, oil and gas equipment and services; five emerging sectors such as environmental equipment and services, mining equipment and services, cultural and educational products and services, electric power equipment and services, and transportation equipment and services; and three future growth sectors such as geomatics, medical/pharmaceutical/biotechnology, and safety and security.

With the opening of hemispheric trade negotiations (officially taking place in Fall 1998, after the Santiago Summit), an agreement should be reached at the latest by 2005 which will implement the Free Trade Area of Americas. As a result, Canada had to redefine its strategy in Latin America. In these negotiations Canada, like Mexico, continued with its own agenda[19]. These priorities can be summarized in three points : (1) to establish clearer rules in trade and investment matters; (2) to extend its trade relations with Latin America; (3) to assert its interests and mark its own values in institutions of Americas developing community. It is for this reason Canada played an active role, along with the U.S. and Mexico, in these negotiations, strongly taking part in several issues (particularly democracy and rights of the individual), firmly present in panamerican institutions (mainly at the OAS), and mediating between its main protagonists, the U.S. and Brazil in particular.

In parallel, in 1997 Canada would adopt a new strategy for Latin America, a region that offered, from the government's perspective, a lot of commercial opportunities poorly exploited by Canadian corporations. The text *Latin America and Carribean Regional Strategy*[20] specified three priorities quite similar to the one we discussed above, which were : (1) the strengthening of the Rule of Law and the transparency in trade relations; (2) expanded and secure access to the markets of the rest of the American continent; (3) active participation from Canada in building new regional institutions in order to assert Canadian values and interests[21].

Canada's new commitment in the region is similar to other commitments elsewhere, aside from two points. For one, Canada has become much more aware than before of Latin American realities and of its own interests in that part of the hemisphere. Second, Canada does not want to let the U.S. determine the values and principles on which future institutions of the Free Trade Area of Americas will be built. Also, for want of seeing positive trade results coming out of these actions nor to see Canada taking a main role in the hemispheric affairs, Canada has at least been able to gain sympathy in Latin America and in the Caribbean, thanks to its important diplomatic and commercial efforts. It should also be noted that this sympathy constitutes nevertheless an important asset for Canada, who has everything to gain with respect to trade and finances. This social advantage will help Canada to

[18] Department of Foreign Affairs and International Trade, Mexico and Inter America Division, Team Canada, 1998.
[19] See, Paula WINOCUR, éLa zone de libre-échange des Amériques : de nouvelles relations interaméricaines ?é, Continentalisation, Cahiers de recherche, 00-07, June 2000, Montreal.(http://www.unites.uqam.ca/gric).
[20] Department of Foreign Affairs and International Trade, Ottawa, 1997 (November).
[21] Joe MONFILS, Martin ROY, Gordon MACE and Jean-Philippe THÉRIEN, éLe Canada et la ZLÉA : Réflexions sur les stratégiesé, *Canadian Foreign Policy*, 1999, Vol. 7, n∞ 2, Winter, pp. 57-72. Also see Canada, Government Response to the report of the Standing Committee on Foreign Affairs and International Trade, *The Free Trade Area of the Americas : Towards a Hemispheric Agreement in the Canadian Interest,* Ottawa, 1999.

distinguish itself from U.S. culture and politics that are still negatively perceived in the hemisphere, and so promote a business ethic and a sense of cooperation extending beyond canadian trade interests.

Mexico, Canada's strategic partner

Mexico has a particular place in Canada's hemispheric strategy, a tie that could be qualified as geo-strategic, since, as an economic partner, Mexico offers more of a potential market that has been actually exploited until now. For one, Canada would like to have closer relations with this country than with the other countries of Latin America and the Caribbean, probably because of its geographic proximity and their comparable situations as privileged trade partners with the U.S. It must be said that Mexico is in a particular position of trust among Latin American countries, due to the fact that, being stable socio-politically on the continent, Mexico has for a long time been the land of exile for political refugees from Argentina, Chile, Uruguay, Paraguay and others, and has gradually become an influential player among Latin America's intellectual and political elite. Because of its privileged position in the hemisphere, Mexico constitutes for Canada an influential intermediary with the rest of the continent. As well, NAFTA has permitted the development of a new partnership between Canada and Mexico that appeases three concerns : (1) to maintain the trade relation and extend the dialogue between the two countries in a climate of better mutual understanding[22]; (2) to distinguish itself from the U.S. on certain sensitive issues (e.g. culture and immigration), even if, ultimately, Canada's positions in trade matters are quite close to those of the Americans; (3) to defend common positions on matters of mutual interest, foremost in the Agreement of Americas, but also in other international forums. This approach essentially reflects that of Mexico's, who pursue more or less the same objectives as Canada, and enhances initiatives on the international scene, while seeking to carefully handle the strategic relation struck up with the U.S. through NAFTA.

Indeed since NAFTA, which constitutes the most important free trade agreement for Mexico because of the scope of its trade relationship with the U.S., Mexico successfully signed many trade agreements as well as various economic and financial agreements. In total, Mexico takes part in approximately 9 different free trade agreements, where six have been ratified after NAFTA under Zedillo's administration (1994-2000 — for instance with Chile (1991), NAFTA (1994), G3 (Venezuela, Colombia) (1994), Costa Rica, Nicaragua, Bolivia (1998), Israel (2000) and the European Union (2000). It is quite difficult to count exactly all the foundational agreements and economic and financial agreements Mexico holds with multiple partners in the Americas and elsewhere. Mexico presently negotiates in many directions and with different partners, such as with Brazil, Ecuador, Peru, Panama, Japan, Thailan, Switzerland, Island, Norway, Liechtenstein, while actively continuing a regional agenda constituting Mercosur and the Free Trade of Americas zone. Mexico now ranks 8th in world exports and 7th in world imports in international trade and has become a major commercial and strategic player in its hemispheric space.

Canada has developed a very close cooperative relationship with Mexico[23]. This bond is reflected by official and non-official meetings and visits that became more and more frequent

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[22] Ex-minister of International Trade, S. Marchi, before the opening of the 13th meeting of Joint Ministerial Committee, éCanada wants to explore with Mexico, a key voice in the hemisphere, co-operative efforts to further trade liberalization in the context of wider, shared values.é (February 16th 1999) (http://www.dfait-maeci.gc.ca/mexico/frnews-e.asp

[23] It is interesting to notice that convergence of opinion between Canada and Mexico is indeed on many issues. Thus for example, while economic integration comes with de facto dollarization, the Governor of Bank of Mexico,

and regular. Some examples include President Zedillo's visit to Canada in 1996 and Prime Minister Jean Chrétien in Mexico in 1997 and 1998, meetings outside of international events (i.e. OAS, APEC, Summit of Americas), the Team Canada mission in Mexico in 1998 led by the Governor General, ministerial and inter-ministerial meetings, during the convening of NAFTA's Commission and during Canada-Mexico Joint Ministerial Committee, as well as official trips of provincial ministers or state governors. The contacts became also more technical and involved more and more non-state actors (corporations, NGO, universities, etc.). The field of topics broached were also extended and more attention is now paid to following up on cases and to the implementation of adopted measures and arrangements in joint action plans.

The two pivotal institutions of the Canada-Mexico relation are the NAFTA Commission and the Canada-Mexico Joint Ministerial Committee. The NAFTA Commission, on which the ministers of Trade for the three signatory countries are seated, has the mandate to ensure that the Agreement is implemented, indeed even to accelerate its implementation[24], to assist in resolving commercial disputes, to extend negotiations to new areas, and to oversee the work of committees, working groups and auxiliary parts of NAFTA. A forum for cooperation, discussions and inter-ministerial exchanges, the Canada-Mexico Joint Ministerial Committee, created in 1968, now has, since 1990, meetings on a regular basis (every 12-18 months) in each country alternately, with a definition of a foundational agreement on trade and investment aimed to establish mechanisms of bilateral consultation. During these meetings all political and commercial or other common interest issues are discussed.

The turning point in Canada-Mexico relation was obviously the visit of President Zedillo in Canada in June 1996 during which a Statement of objectives for Canada-Mexico relations along with an Action Plan was adopted. Focused on convergence, coincidence and complementarity, this Action Plan has since been reviewed and extended several times, most notably during the 12th and 13th Joint Inter-ministerial Committee meetings (December 1996 and February 1999). The general principles remain however the same. The Plan aims to extend and to deepen a relation based on geographical and commercial ties, in three directions : political dialogue, social dialogue, and commerce and economy[25]. To these directions, are also added environment, communications, culture, science and technology, and other themes such as agriculture, tourism, finance, statistics, etc.

For the moment, without being as profound as the Canada-U.S. relation, the bilateral Canada-Mexico relation is nevertheless conducted in a context of intergovernmental cooperation that also intends to converge and harmonize both countries' domestic policies and develop common positions regarding the U.S., major international institutions (from WTO to OAS), and also the project of the Americas. It is significant to mention that in this respect more than 50 bilateral agreements, among which more than 40 have been signed since 1990, govern relations between the two countries. In this way, we can say that if NAFTA became a powerful engine in the economic convergence between the U.S., Canada and Mexico, it has also stimulated the beginning of a political convergence, presently of a lesser

Guillermo Ortiz mentioned during a debate on dollarization at IMF that the convergence of opinion between Canada and Mexico in matters of changes and benefits that both would obtain from this floating exchange rate regime, to begin on the level of monetary independence and in face of IMF Economic Forum Dollarization : Fad or Future for Latin America, June 24 1999).

[24] Two series of accelerated elimination on tariff rights have been implemented, first on July 1st 1997 and for the second time on August 1st 1998.

[25] New directions : Canada-Mexico 1999 Declaration of objectives and action plan (http://www.dfait-maeci.gc.ca/mexico/frnews-e.asp).

importance, but reflects nevertheless a certain trend in which a North American community is emerging, a community with whom Canada intends to cooperate actively.

Several remarks must however be considered.

First of all, this privileged relation developed between Canada and Mexico is done outside of the relations linking these two countries with the U.S. In a geopolitical and economic context, in which the U.S. is essential, it is difficult to develop close relations without passing through the U.S. intermediary, as indirect as it sometimes is. Neither Canada nor Mexico can forget that their corporations and their economy on a whole depend on the U.S., which remains their main market, their main supplier, their main source of investments and their main pool of technologies. In this regard, statistics speak for themselves: whether it is on the trade or investment level, the U.S. receive about 50 times more goods and Canadian funds than Mexico. In 1999 Canada-U.S. trade of goods reached approximately $570 billion CAD, compared to approximately $11 billion CAD in Canada-Mexico trade. Direct American investments in Canada reached in 1998 $147 billion CAD, $464 billion CAD in Mexican investments. As for direct Canadian investments, they reached $126 billion CAD in the U.S., but barely $2.2 billion CAD in Mexico.

Trade (and its percentage of growth) remains the cornerstone of this relation. This relation is not as straightforward as it is elsewhere, for example in Europe, going beyond mere inter-governmental cooperation, with the exception of certain very specific areas. Despite undertaken reforms and trade liberalization, Mexico and Canada have very different cultures, customs and business guidelines. The cultural divergence between these two countries remains significant, much more significant than that between Canada and the U.S. More fundamentally, even if major efforts are made by both countries to extend this cooperation to other economic levels, to favour the harmonization of these cultures and to make non-governmental actors more active, the political, social, cultural and scientific dialogue that has been established between the two countries is done outside of commercial and economic dialogue[26]. The notion of North American Community has still not been well elaborated, at least for now[27].

Finally, we must recall that, beyond the numerous mutual interests, Mexico's economy is in emergence, with a GDP per capita (PPP) three times lower than Canada's GDP and almost four times lower than that of the U.S. The gap is even larger if we consider the GDP in current $ (Table 1). With respect to the United Nation's Human Development Index, Mexico is ranked 14th, compared to Canada, ranked 1st, and the U.S., ranked 2nd. We must not forget too that NAFTA is a heterogeneous economic space, quite far from qualifying as an optimal monetary zone. But most of all, it is a space marked by a double asymmetry: on one hand by an asymmetry that characterizes the relations between the U.S. and its two trade partners and, on the other hand, by one that takes into consideration that the agreement ties two developed

[26] The theme of transnational civil activism, possibly stimulated through the NAFTA is of great interest, however, as the work of Jonathan Fox underlines, these civil networks, coalitions and social movements (by growing intensity) show to be nationally based and do not constitute this continental (or global) civil society activists claim to be representing. In all cases the development of such civil interactions among the United States and Mexico, the U.S. and Canada and more marginally Canada and Mexico, are of great concern for further research. See for instance J. FOX (2000), *Assessing Binational Civil Society Coalitions : Lessons from the Mexico-US Experience*, Santa Cruz, University of California in Santa Cruz, Chicano/Latino Research Center, Working Paper No. 26, Paper presented at the Latin American Studies Association, April 16-18, Miami.

[27] Although few studies have been undertaken on the cultural aspects of North American economic integration, the work of Ronald Inglehart, addressing the éamericanizationé of Canadian and Mexican cultural consumption patterns and political behaviors, needs to be mentioned. See more particularly R. INGLEHART, Miguel BASANEZ and Neil NEVITTE (1994), *Convergencia en Norteamérica, comercio, politica y cultura*, Mexico, Siglo XXI.

countries to one country still under development. It is also relevant to mention that social issues, particularly migration issues, were left voluntarily aside in the negotiation of NAFTA. Political reasons prevailed over those mentioned and priority was given to trade issues. The proposed argument that free trade development would both reduce migratory flood and social inequalities still has yet to be proven[28]. In Mexico several experts indeed estimate that the economic reforms undertaken during the 80's and enhanced by NAFTA, had immediate consequences of diminishing manufacturing employment and substantially increasing informal operations, reducing agricultural work and (substantially) displacing labour to urban zones in its first stage, and, in short, intensifying undocumented emigration to cities and southern rural areas of the United States.

To summarize, if cooperative relations between Canada and Mexico have seen major developments since the mid 90's and are now more elaborated than they were before NAFTA, these relations need to mature as well as to venture off the beaten track than they have up to now in order to really see the foundation of a genuine partnership between two countries, that have many similarities but remain distanced from each other.

Table 1 : U.S., Canada, Mexico, Selected Economic Indicators

		U.S.	Canada	Mexico
Surface (sq. km. 000)		9372	9976	1973
Population (millions)	1997	266.8	30.3	94.2
GDP (PPP) (US $ billion)	1998	8178.8	748.9	760.9
GDP/h (PPP) (US $)	1998	30514	24468	7998
GDP/h (US $)	1997	29080	19640	3700
GDP growth rate (av. an. % change)	1988-98	2.8	1.8	3.4
Balance of trade (as percent of GDP)	1997	-1.4	1.6	0
Exports. goods	1999	695	238.4	136.7
Imports. Goods (US $billion)	1999	1059.9	220.2	148.2
Exports. services	1999	251.7	32.4	11.6
Imports. services (US $billion)	1999	182.3	37.1	13.7
R & D (as percent of GDP)	1996	2.62	1.64	0.31

Source : OECD and World Trade Organization

[28] For this topic, see OECD, *Migration, Free Trade and Regional Integration in North America*, Paris, 1998.

CANADA-MEXICO ECONOMIC RELATIONS IN A DEEP INTEGRATION CONTEXT

The North American Free Trade Agreement (NAFTA) has created a new situation, making the analysis of the Canada-Mexico analysis economic relation more difficult. Indeed, even if trade between these two countries and the U.S. have always been important, the creation of a unified economic space a new integrative dynamic is under way. The impact of Free Trade was not only a result of the fast elimination of customs tariffs, which were already quite low (not to say almost inexistent between the U.S. and Canada), but also a result of : (1) the elimination of a number of quantitative and regulative restrictions imposed on trade and investment; (2) the widening of conditions concerning access to markets, and the protection now given to investors and their investments; (3) the establishment of a mechanism for dispute resolution; (4) the adoption of criteria for rules of origin.

The phenomenal increase in intra-NAFTA trade has been the most significant consequence of Free Trade, to the great satisfaction of the three countries involved. In reality, this consequence is not so important when compared to qualitative changes that resulted from the implementation of NAFTA. First of all, NAFTA created a climate of trust and transparency in business relations in this zone. Second, with its normative content, NAFTA (and, previously, FTA) created an economic environment extremely favourable for investments, production and trade intra-NAFTA, perhaps even at the expense of exchanges with Third World countries. Finally, enterprises saw their market potentials widen, thus favoring the reorganization of operations within the zone, and in return for the economies and sectors concerned, emergence of new specializations, factorial and intra-industrial.

NAFTA, in fact, created an entirely new environment in the integrative process of North America favoring shallow integration, focused on bilateral trade and on-site investment, over what certain authors like to call deep integration, which is focused more and more within the zone, on organizations producing channels and networks and the development of intra-industry trade and intra-firm trade.

Without forgetting that the triangular relations remain deeply marked by the effect of attraction to the economy from its two neighbours, the American economy is the real centre of gravity of the North American area. Not incidentally, American enterprises, because of their very widespread and developed networks, are at the heart of this newly emerging integration model. Even though the polarization of trade by the U.S. within the NAFTA zone increased, this did not impede the development of business between Canada and Mexico, which remains, however, less significant compared with that which each country has developed with the United States. Both countries have found their own benefits from this new integration model, more so Mexico than Canada, but the shape and direction taken by this integration is escaping the hands of public authorities.

Two points will be further discussed in this section. First, we will discuss what can be called the new triangle of Canada-U.S.-Mexico economic relations. We will follow with a presentation of the places Canada and Mexico are trying to occupy within the triangle through their new bilateral partnership.

The U.S.-Canada-Mexico triangle

Three characteristics define the Canadian and Mexican economies within the North American triangle. They are very open towards foreign investment, very tied with the American economy and strongly integrated into networks for multinational firms. Let us examine these trends.

Openness and transnationalization

Three indicators have been considered : exports and import shares of the GDP, foreign direct investment shares of the GDP and the United Nations' Transnationalization Index.

Table 2 recapitulates statistics for trade and investments. It shows clearly the increasing importance of international trade and foreign investments for the economy for the three countries[29]. Free Trade is not the only factor contributing to this increasing trade with Europe. FTA and then NAFTA largely contributed to creating a favourable economic environment for trade and investment, thereby allowing Canada and Mexico to reach two of their objectives in their trade negotiations with the U.S.

Growth in international trade was indeed extremely important to the three NAFTA countries during the 90's. Between 1990 and 1998, the average growth in exports per year was : 14.1 % for Mexico, 7.1 % for the U.S. and 6.7 % for Canada. The average growth in imports per year was : 15.8 % for Mexico, 7.8 % for the U.S. and 6.7 % for Canada[30]. In the three countries, the orientation towards exports and the penetration of imports increased substantially throughout the 90's in almost every sector of economic activity. The percentage of exports of goods and services of the GDP soared for the three countries during those years, more than 50 % to establish itself at 41 % of the GDP for Canada in 1998 (1999 : 43 %), more than 31 % for Mexico and almost 11 % for the U.S. Also worth mentioning, in 1998 Canada and Mexico ranked 7th and 13th respectively in the world for the export of goods while the U.S. once again ranked a firm 1st, a position they had lost in the 80's. Recall that Mexico ranked 20th in 1990.

As far as investments are concerned, the results are irrefutable. Between 1990 and 1998, the U.S. took more than a quarter of all foreign direct investments in the world; Canada and Mexico took about 2.5 %[31]. For itself, Mexico concentrated a quarter of all its direct investments between 1989 and 1998 on Latin America, equalling Brazil[32]. In 1980 Mexico represented 1.7 % of all direct investments in the world; in 1998 the percentage was 2.5 % (1990 : 1.9 %)[33]. From 1989 to 1998, Mexico's share in American foreign investment increased from 2.4 % to 2.6 %[34]. For Canada, the results are mixed.

With foreign direct investment stock at more than 24 % of the GDP in 1998, according to data from Statistics Canada, and with abroad direct investments at approximately 27 % of

[29] We will notice that figures are subjected to change according to the available sources.
[30] Source : World Trade Organization.
[31] United Nations, UNCTD, *World Investment Report*, 1999.
[32] CEPALC, *Balance preliminar de las economias de America latina y el Caribe*, Dec. 1999. See also, CEPALC, *Foreign Investment in Latin America and the Carribean*, 1999.
[33] United nations, UNCTD, *World Investment Report,* 1999.
[34] Bureau of Economic Analysis, *Survey of Current Business*.

GDP, Canada is among the most outward of OECD countries in this domain. Furthermore, Table 2 shows that, although there has been an important increase in investments in Mexico these last years, out of the three countries Canada's economy remains the most dependent on foreign investment. This phenomenon works in both directions. Since 1996 Canada's direct investments outside of the country have become even more important that foreign investments in Canada.

To add to this, however much direct investments have found their way back to Canada, we notice that Canada's share of foreign direct investments in the world has not stopped decreasing. Between 1980 and 1990 the numbers went from 11.3 % to 6.6 %, stopping at 3.5 % in 1998. Also of concern, an Industry Canada study[35] shows that since 1985 Canada's share of the total stock of North American foreign direct investments has continued to decrease. Approximately 16 % of the total in 1985, it dropped to 13.6 % by 1998. Between 1990 and 1998, the decrease was 7.6 % and more than 90 % of this decrease is related to the reduction in investments received by Canada from the U.S.

Table 2 : NAFTA, Foreign Trade and Foreign Direct Investment,
percent of GDP, 1990, 1995, 1997-1998

Trade (goods & services)

	Exports					Imports				
(%)	1980	1985	1990	1995	1998	1980	1985	1990	1995	1998
U.S.	10.0	7.1	9.4	10.9	10.9	10.7	10.2	10.7	12.3	12.9
Mexico	11.6	17.1	18.6	31.2	31.2	14.2	12.9	19.8	18.7	33.3
Canada	28.2	28.2	26.1	37.3	41.1	26.4	25.8	26.0	34.2	39.1

Stock of Foreign Direct Investment

	Inward			Outward		
(%)	1990	1995	1997	1990	1995	1997
U.S.	7.2	7.7	8.4	7.9	10	10.6
Mexico	9.2	14.3	14.5	0.2	1.4	1.3
Canada	19.9	22	22.3	14.9	21.5	21.3

Sources : United Nations, *World Investment Report, 1999* ;
IMF, *Direction of Trade Statistics* and *World Economic Outlook Database*.

The next table, Table 3, gives a more precise demonstration of the importance of triangular trade for all three economies. The table shows for each country the percent of the GDP of imports and exports with the other two countries. We also incorporated into the table data from other countries of the Western Hemisphere (Mexico excluded). Data is for 1990, 1995 and 1997. Two conclusions result from this table. First of all, measured in % of the GDP, the intensity of trade reveals major contrasts among the three countries. In the three cases, triangular trade has gained importance, but while exports to Canada and Mexico from 1990 to 1998 went from 1.9 % to 2.7 % of the GDP in the U.S. and the percentage of imports coming from these two countries went from 2.1% to 3.2%, the percentage of the GDP of exports to

[35] Team Canada, *The Trade and Investment Monitor, 1999-2000*, *op. cit*., p. 29.

the U.S. during the same period went from 16.2 % to 30.3 % on behalf of Canada, and from 7.2 % to 24.9 % for Mexico, while the percent of the GDP for imports from the U.S. to Canada went from 12.9 % to 22.4 % and those to Mexico increased from 7.6 % to 22.5 %.

Another conclusion we can draw is that, although there has been an increase, trade between Canada and Mexico has remained limited and of secondary importance for both countries. Hence Canadian exports to Mexico represented in 1998 barely 0.1 % of the Canadian GDP and imports from Mexico have not exceeded 0.8 %. As for Mexico, exports to Canada were barely 0.7 % and Canadian imports reached 0.6 %.

Table 3 : NAFTA, Trade Orientation Index 1990, 1995, 1998,

Exports percent of exporting country's GDP (exporting country)

1990	USA	Can	Mex	LAC	Others	world
U.S.	*	1.4	0.5	0.4	4.5	6.8
Canada	16.4	*	0.1	0.3	5.0	21.8
Mexico	7.2	0.1	*	0.7	2.4	10.3
1995	USA	Can	Mex	LAC	Others	world
U.S.	*	1.7	0.6	0.7	5.0	8.0
Canada	26.0	*	0.1	0.5	5.7	32.3
Mexico	23.4	0.7	*	1.6	2.3	28.1
1998	USA	Can	Mex	LAC	Others	world
U.S.	*	1.8	0.9	0.8	4.4	8.0
Canada	30.3	*	0.1	0.4	4.2	35.0
Mexico	24.9	0.7	*	1.4	1.8	28.7

Imports percent of importing country's GDP (importing country)

1990	USA	Can	Mex	LAC	Others	world
U.S.	*	1.6	0.5	0.6	6.2	9.0
Canada	12.9	*	0.3	0.4	6.9	20.6
Mexico	7.6	0.1	*	0.5	3.2	11.4
1995	USA	Can	Mex	LAC	Others	world
U.S.	*	2.0	0.9	0.6	7.1	10.6
Canada	18.5	*	0.6	0.5	8.1	27.8
Mexico	19.0	0.5	*	0.7	5.3	25.6
1998	USA	Can	Mex	LAC	Others	world
U.S.	*	2.1	1.1	0.6	7.2	11.1
Canada	22.4	*	0.8	0.6	8.7	32.5
Mexico	22.5	0.6	*	0.7	6.4	30.2

Sources : IMF, *Direction of Trade Statistics ; World Economic Outlook Database.*

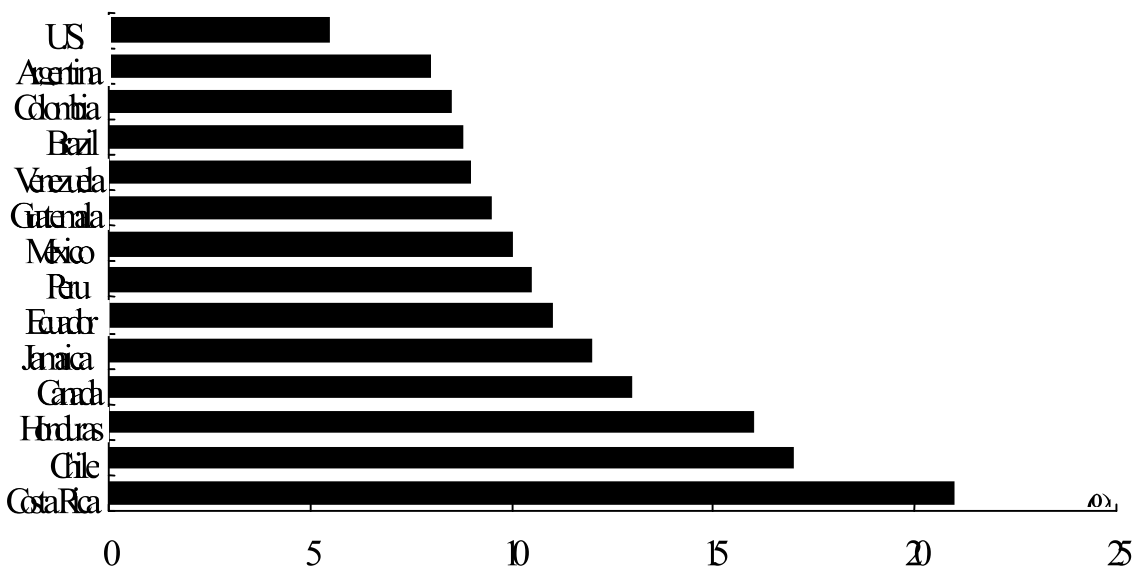
Note : LAC : Latin America and Caribbean countries, Mexico not included.

Tables 2 and 3 indicate how important foreign trade and foreign direct investments are for all three economies. It is possible to get a better idea of the degree of integration of an economy into the network of transnational firms by combining, as do the authors of the World Investment Report, four variables for each country, the variables being : (1) foreign direct investment inflows in percentage of total investments during the last three years; (2) foreign direct investment stock in percentage of the GDP; (3) value of foreign affiliates in percentage of the GDP; (4) employment of foreign affiliates with respect to total employment. Thus we obtain the transnationalization index. In order to be able to make comparisons, we have added Figure 1, showing the index for a certain number of Western Hemisphere countries for which we have data.

Figure 1 shows that out of the three countries, the American economy is the least integrated into the network of transnational firms, whereas the Canadian economy is the most integrated. However an important remark must be made. The index is an index of external dependence and is not aimed to measure the relative importance of transnational firm activity to foreign countries in proportion to the economic activity of their own country. In other words, the index can only reveal the degree of dependence of the economy on transnational firms and not the importance of the operations of its own transnational firms in economies abroad.

Figure 1 : Transnationalization Index, 1996

Western Hemisphere, selected countries



Source : United Nations, *World Investment Report, 1999.*

Intra-regional trade and asymmetric interdependence

An increase in intra-regional trade, more specifically trade between the U.S. and its immediate neighbours, is a second trend revealed by trade data. These bilateral ties had always been close, as was already stated. However, the increase has been much more important than most of the studies conducted at the time of the signing of the two Free Trade Agreements anticipated. Crossed investments between the three countries also increased. But while the U.S.' share in foreign investments remains high in Mexico, it had the tendency to decrease in Canada, for both incoming and outgoing investments.

Intra-regional trade by the three NAFTA countries represents close to 10 % of the world trade. Between 1990 and 1999 intra-regional exports went from 6.9 % to 10.4 % of world exports, and imports from 6.6 % to 10 % of world imports[36]. This triangular trade presently represents more than 50 % of total trade in North America versus approximately 35 % at the beginning of the 80's. These percentages should however be put into perspective.

Despite the strong increase in trade with Canada and Mexico, the U.S. present a much more diversified trade balance on the geographical level than Canada and Mexico, who, contrary to initial expectations when signing the Free Trade Agreement, have depended even more on their main trade partner during the last decade. Thus together Canada and Mexico saw, from 1989 to 1999, their share in American exports rise from 28.1 % to 37 %, and from 23.8 % to 29.8 % with respect to imports. In parallel, American shares between those years went from 70 % to 82.7 % of total exports and from 68.2 % to 74.3 % of total imports in Mexico, and from 70.7 % to 87.2 % of total exports and from 68.2 % to 74.3 % of total imports in Canada.

Table 4 shows for each NAFTA country the share of the other two countries in total trade. We simply notice that, for exports, the U.S.' share increased more than 10 percentage points of the total Canadian and Mexican exports between 1989 and 1999, but as for their imports, the increase was not as considerable.

Table 4 : NAFTA : Bilateral Trade
1989-1999, share of total exports and imports percentage

Exports

	U.S.		Mexico		Canada	
	Canada	Mexico	U.S.	Canada	U.S.	Mexico
1989	21.5	6.9	70.1	1.2	70.7	0.4
1990	21.1	7.2	69.3	0.8	75.4	0.4
1991	20.2	7.9	79.5	2.7	75.8	0.3
1992	20.2	9.1	81.1	2.2	77.8	0.5
1993	21.5	8.9	83.3	3	81.3	0.4
1994	22.3	9.9	85.3	2.4	82.5	0.4
1995	21.6	7.9	83.6	2.5	80.4	0.4
1996	21.3	9.1	84	2.3	82.3	0.4
1997	21.8	10.4	85.6	2	83.2	0.4
1998	22.7	11.6	87.9	1.4	86.5	0.4
1999	24.3	12.7	82.9	1.5	87.2	0.5

Imports

	U.S.		Mexico		Canada	
	Canada	Mexico	U.S.	Canada	U.S.	Mexico
1989	18.2	5.6	68.2	1.6	63.5	1.3
1990	18.1	6	66.1	1.3	62.9	1.4
1991	18.4	6.3	73.9	1.4	62.3	1.8
1992	18.3	6.5	71.3	1.7	63.5	1.8
1993	18.9	6.8	71.2	1.8	65	2
1994	19.1	7.3	71.8	2	65.8	2.1
1995	19.2	8.1	74.5	1.9	66.7	2.3
1996	19.5	9.1	75.6	1.9	67.4	2.5
1997	19.1	9.7	74.8	1.8	67.5	2.5
1998	18.8	10.2	74.5	2.2	68	2.5
1999	19.2	10.6	74.3	2.1	70	2.6

[36] Sources, World Trade Organization, March 2000.

Sources : FMI. *Direction of Trade Statistics ; World Economic Outlook Database.*

Table 5 provides for each of the three countries shares of foreign direct investment of the other two countries. In the U.S., as in Canada, the American share of incoming investment stocks increased since NAFTA. Data from Statistics Canada also show that the U.S. was a main factor behind more than 70 % of cumulative net incomes in Canada between 1990 and 1998[37]. In fact, it was more like a take over by the U.S. Canada and Mexico received in 1997 11.6 % and 3 % respectively of American global investments. The decreasing trend has been stable for Canada, but for Mexico, on the other hand, American investment shares in Mexico increased considerably these last years (from 1.8 % to 3 % between 1986 and 1997), while Canadian investment shares in Mexico also increased (from 0.3 % to 1 %). This will be discussed later on in the text. The table also indicates that out of total foreign investments received in Mexico, IDE shares originating from the U.S. slightly decreased (from 62 to 60 % between 1986 and 1997), and those from Canada slightly increased (from 2.1 to 2.7 % during that same period), which means that Mexico improved its position as a foreign investment receiving country, and attracted funds from regions other than from the United States such as Europe.

Table 5 : Crossed Foreign Direct Investment,
between U.S., Canada and Mexico,
1986, 1995, and 1997.

Share of Total Investment Stocks

	Inward			Outward		
	1986	1995	1997	1986	1995	1997
U.S.						
Canada	10.3	9.2	10.2	19.5	11.9	11.6
Mexico	na	na	Na	1.8	2.2	3
Canada						
U.S.	72.1	67.5	69.3	68.3	52.4	51.6
Mexico	na	na	Na	0.3	0.7	1
Mexico						
U.S.	62.3	59.8	60	na	na	na
Canada	2.1	3.1	2.7	na	na	na

Source : OCDE, *Mesurer la mondialisation.*
Le poids des multinationales dans les économies de l'OCDE, Paris, 1999.

Free Trade and corporative integration

The U.S. is more than ever the real center of gravity of the North American economy. However, this status does not mean, as we will see in a later section, that trade and investment polarization is done at expense of Canada-Mexico relations. This translates into two facts. For

[37] Statistics Canada, *Canadian international investments report*, 2000, n∞ 67-202.

one, that economic convergence within NAFTA is done around the U.S.[38] Given the size of their economy, their dynamism and the actual strength of growth triggered by the new economy, the U.S. found the asymmetric interdependent relation binding its two neighbours to be enhanced by the liberalization of trade. Even if in numerous sectors Canadian and Mexican enterprises gained important market shares in the U.S., the same is true for the U.S. The number, size and dynamism work in favor of American enterprises. Two other more qualitative trends accompany these. The first being the trend to create, in Mexico and Canada in particular, between the transnationalized sector of the economy, a more dynamic and more competitive disjunction and the domestic sector. The second trend is as following. If NAFTA is without a doubt, along with the European Union, one of the most integrated economic regions in the world, this integration is principally conducted to the benefit of transnational enterprises, these having from now on more room to manoeuvre in penetrating markets.

Despite their rich history and their increasing importance in the world economy, data available concerning the operations of transnational firms remains very limited and heterogeneous[39]. Industry Canada and Investment Canada conducted several studies that have shed light on the importance of foreign affiliates on the country's total economy, as well as on intra-firm trade[40]. Industry Canada's recent study estimates 44.6 % of Canadian exports are attributable to enterprises of foreign affiliates based in Canada, likewise 51.2 % of imports. American affiliates alone are responsible for approximately 40 % of Canada's total exports and 41 % of imports[41]. Statistics published by the U.S. Bureau of Economic Analysis are along the same lines.

American multinationals are in one way or another responsible for about 63 % of total U.S. exports and about 40 % of imports. Intra-firm trade represents more than a quarter of all U.S. exports and more than 42 % of total trade is related to multinationals. For imports, the percentages were 16.9 % and 42.1 % respectively in 1997. As shown in Table 6, for Canada multinationals' trade with their affiliates or those of other groups make up about 45 % of the total U.S. exports and between 43 % and 42 % of their imports. Although, according to borrowed sources, the numbers had a tendency to fluctuate, the percentages are also very high

[38] Most of the studies tend to show that NAFTA has little effect on the cycle of economic behaviour in Canada. However, in Mexico's case, we notice that the trend began for the harmonization of the economic cycle with the U.S. has increased since NAFTA.

[39] For this topic, see OECD's on transplants : OECD, *Exchanges and investments : transplants*, Paris, OECD, 1994; Marcos BONTURI, and Kiichiro KUKASAKU, "Globalization and Intra-firm Trade : An Empirical Note", *Economic Studies of OECD*, n∞ 20, spring 1993, pp. 145-159. See also R. J. RUFFIN (1999), "The Nature and Significance of Intraindustry Trade", *Economic and Financial Review*, pp. 2-9, that estimates that around 80 % of U.S. trade with Mexico is intra-firm. Figures that the Mexican publication *Comercio exterior*, based on INEGI data, are less alarming and at 62,8 % (*Comercio exterior*, March 1998).

[40] Regarding these issues, see, Richard A. CAMERON, *Commerce intrasociété des entreprises transnationales étrangères au Canada*, Work document n∞ 26, December 1998, Industry Canada; Ronald CORVARI and Robert WISNER, *Les multinationales étrangères et la compétitivité internationale du Canada*, Investment Canada, Work document,n∞ 16, June 1993; and Lorraine EDEN, *Les multinationales comme agents de changement : définition d'une nouvelle politique canadienne en matière d'investissement étranger direct*, Ottawa, Carleton University, 1994.

[41] Industry Canada studies show three interesting trends : First, the propensity of American affiliates in Canada to trade with their parent stores in the U.S. is much more important than Canadian affiliates in the U.S. (about 45 % for the American ones versus about 10 % for the Canadians for propensity to export). Secondly, intra-firm trade share in Canada and U.S. total trade is also much more important for Canada-U.S. trade than U.S.-Canada trade with Canada (about 70 % for the former case vs 53 % for the after case). In third, Canada's trade with the U.S. tends to extend to others States than those on the border of the two countries. (Richard A. CAMERON, *Commerce intra-société des enteprises trnansnationales étrangères au Canada*, Industry Canada, Work document n∞ 26, December 1998; Industry Canada, *L'accroissement des relations économiques entre le Canada et les États-Unis,* 1999; Christian DEBLOCK and Chrisitan CONSTANTIN, *Intégration des Amériques ou intégration · l'économie américaine ?*, Cahier de recherche du GRIC, March 2000, http://www. unites.uqam.ca/gric/)

for Mexico, as much as a third of trade, a situation comparable to Brazil. We may consider that a major part of this trade is intra-firm.

The tendency towards concentration, given by the increase of intra-firm trade, is seen in Mexico. Presently, Mexico’s export sector is characterized by its concentration on a reduced number of products, the existence of a restricted number of exporting enterprises, generally large and by mainly American incoming and outgoing of products. Moreover, *Comercio exterior* (March 1998-99) estimates that around 63 % of Mexico’s trade manufacturing transactions are intra-firm trade, mainly between Mexican affiliates and American mother-firms.

Table 6 : US Multinationals' Trade with Affiliates
percent of total US exports and imports
1989, 1995 et 1996

	Exports			Imports		
	1989	1995	1996	1989	1995	1996
All countries	28.2	30.4	31.1	20.6	20.0	20.4
Canada	46.9	45.5	44.4	45.8	43.2	42.1
Latin America	25.7	26.3	27.4	20.6	25.2	25.4
Mexico	31.0	36.7	36.5	27.1	31.4	32.2
Brazil	32.0	27.5	30.2	23.7	23.0	26.5
Europe	30.8	36.3	36.3	14.6	16.6	16.2
Asia-Pacific	16.7	20.9	21.9	12.8	9.7	10.7

Sources : Office of Economic Analysis, *Survey of Current Business*,
1998 ; September ; 1999, July..

Table 7 gives us two kinds of information on operations abroad of American multinationals under majority control. First of all, it shows us the geographical distribution of these operations with respect to 6 variables : assets, sales (total and goods only), gross product, employment, U.S. incoming imports and outgoing exports. The table then shows 6 types of ratios : assets to sales, gross product per worker (in USD), net income to assets, imports and exports (incoming and outgoing from the U.S.) to sales, and R-D expenses to sales.

Four remarks must be made. To begin with, even if it is not shown in the table, Canada's shares tend to generally decrease whereas Mexico's tend to increase. It is therefore particularly interesting to look at employment statistics. In 1989, Canada's American affiliates employed 903 500 people. In 1996 it went down to 832 000, but saw an increase of 26 000 in 1997 to 858 300. In other words, between 1989 and 1997 the employment in Canada by American affiliates diminished significantly by 45 200 jobs. In parallel, for the same period employment in Mexico went from 328 000 to 530 700, which is an increase of 202 700 jobs. The number of jobs also increased in 1997 compared with 1996, but more significantly than in Canada : 29 200 jobs.

The next thing to notice is that trade by Canadian affiliates with the U.S. alone represents close to one third of the affiliates' sales, a percentage, however, lower than what has been observed for Mexico : close to 50 % for exports and a little more than 43 % for imports. The ratio of assets to sales, an indication of capital turnover, is relatively low in Canada, 1.1 versus 1.5 on average, but is higher than in Mexico : 0.7. The profitability of Canadian affiliates is comparable to that of affiliates in Europe. It is, on the other hand, lower than that which is found in Mexico, Brazil and Costa Rica, for example.

Finally, we notice that the gross product per worker is much lower in Canada than in Europe, as well as in certain Latin America countries like Brazil, Argentina and Chile. It is, however, 3 times higher than in Mexico. In short, we can conclude from this analysis that Canada's American affiliates are well situated around the average with respect of profitability, productivity, and capital turnover. However, other countries of the continent, especially Mexico, show undeniable benefits, beginning with profitability, which is not without its consequences on the direction of investments and the reorganization of operations within the NAFTA zone[42].

Table 7 : **Operations of US Affiliates by Country Groupings : 1998**

	Assets	Sales total	Sales goods	Gross Product	Employment	Imports	Exports
	(share of total)						
Total	100	100	100	100	100	100	100
Canada	9.0	12.6	13.1	11.1	13.2	32.7	40.5
Latin Am. Car.	12.3	10.8	10.7	11.7	18.8	16.7	21.4
Brazil	2.3	3.0	3.2	4.5	4.6	2.0	1.6
Mexico	1.4	2.8	3.2	2.3	8.1	10.9	15.8
Argentina	0.9	1.0	1.1	1.3	1.2	0.7	0.1
Chile	0.5	0.5	0.4	0.5	0.6	0.3	0.3
Venezuela	0.3	0.5	0.4	0.5	1.1	0.7	0.1
Colombia	0.3	0.4	0.5	0.5	0.7	0.4	0.1
Costa Rica	0.1	0.1	0.1	0.1	0.4	0.1	0.5
Ecuador	0.1	0.1	0.1	0.0	0.2	0.0	0.2
Western Hem.	21.3	23.4	23.8	22.7	32.0	49.4	61.9
Europe	60.1	54.7	54.5	57.3	45.8	26.4	16.0
Africa	1.0	1.4	1.2	1.7	1.7	0.3	1.6
Mid.-East	0.5	0.5	0.4	0.8	0.7	0.2	0.4
Asia-Pac.	16.6	20.0	20.1	17.1	19.7	23.6	20.1

(Continuation)

	Assets/ Sales (percent)	Gross Product/ Worker (US$)	Net Income/ Assets (percent)	Imports / Sales (percent)	Exports/ Sales (percent)	R.-D./ Sales (percent)
Total	1.5	79582	4.6	12.5	10.0	0.85
Canada	1.1	67056	4.6	31.4	31.0	0.84
Latin Am. Car.	1.7	49287	6.3	19.5	20.0	0.37
Brazil	1.1	78398	6.2	8.1	5.0	0.83
Mexico	0.7	22629	9.4	43.1	49.7	0.25
Argentina	1.3	83379	3.9	8.4	0.9	0.23
Chile	1.7	70050	6.3	8.5	5.9	0.09
Venezuela	1.0	40577	7.8	20.6	1.4	0.15
Colombia	0.9	56637	6.6	9.3	1.7	0.15
Costa Rica	1.3	21518	10.3	8.8	35.5	0.18
Ecuador	1.0	21636	0.4	8.4	25.0	0.08
Western Hem..	1.3	56593	5.6	26.0	26.1	0.63
Europe	1.6	99646	4.2	6.1	3.0	1.05
Africa	1.1	81722	6.6	3.4	12.8	0.13
Mid.-East	1.6	100746	7.0	7.1	9.7	2.94
Asia-Pac.	1.2	69178.7	4.9	14.7	10.0	0.6

Sources : Bureau of Economic Analysis, *Survey of Current Business*, 1998, September; 1999, July.

Canada-Mexico Bilateral Relations

From the previous collection of data it is arises that, if the image of a hub and spokes so often used to represent economic relations between the U.S. and other countries of the

[42] Industry Canada's studies show that generally, enterprises under foreign administration in Canada have a better performance than enterprises under Canadian administration.

continent[43] still remains relevant, we must equally consider the fact that a new integrative dynamic, implying reorganization and restructuring on a continental scale, had been started in the Americas, and in this regard, the implementation of NAFTA constitutes the first step, if not the turning point in a process that can only deepen as soon as the domino effect[44] working in favor of liberalization of trade, spreads whether it is through bilateralism, minilateralism or regionalism. In light of these remarks we can now examine more closely bilateral economic relations between Canada and Mexico. But before we do, we must make a point about the trade data.

The transit of a major part of the trade by the U.S. indeed complicates the data analysis. If we retain the Canadian statistics as a basis of analysis, it is clear that there are major gaps between the data from Statistics Canada and that of INEGI[45], as is shown in Table 8. The numbers for Mexico are much more significant than the Canadian numbers for exports, and vice versa for imports. The balance also shows important deviations, with a rising deficit when looking at the numbers from Statistic Canada and a more or less stable deficit according to INEGI. This issue has been discussed in the setting of bilateral relations between the two countries. Actually, these two statistical organizations are working on unifying the data. While we wait for more reliable data, we can still examine the trade relation between the two countries.

43 Ronald J. WONNACOTT, "Trade and Investment in a Hub-and-Spoke System Versus a Free Trade Area", *The World Economy*, 1996, pp. 237-253.

44 See Richard E. BALDWIN, "The Causes of Regionalism", The World Economy, Vol. 20, n∞ 7, November 1997, pp. 865-888. And, Richard E. BALDWIN, "A Domino Theory of Regionalism", National Bureau of Economic Research, Working Papers, n∞4465, Cambridge.

45 The exports column compares the export values according to Statistics Canada and Mexican import values from Canada according to INEGI.

Table 8 : Canada's Trade with Mexico :
Comparison of Trade Statistics
1993-1998, based on Statistics Canada and INEGI statistics,

Can $ millions	Exports		Imports		Trade Balance	
	Stat. Can.	INEGI	Stat. Can.	INEGI	Stat. Can.	INEGI
1993	826	1500	3723	1988	-2897	-488
1994	1083	2185	4525	2034	-3442	151
1995	1148	1886	5351	2716	-4203	-830
1996	1252	2385	6034	2968	-4782	-583
1997	1273	2725	7019	2985	-5746	-260
1998	1454	3400	7671	na	-6217	

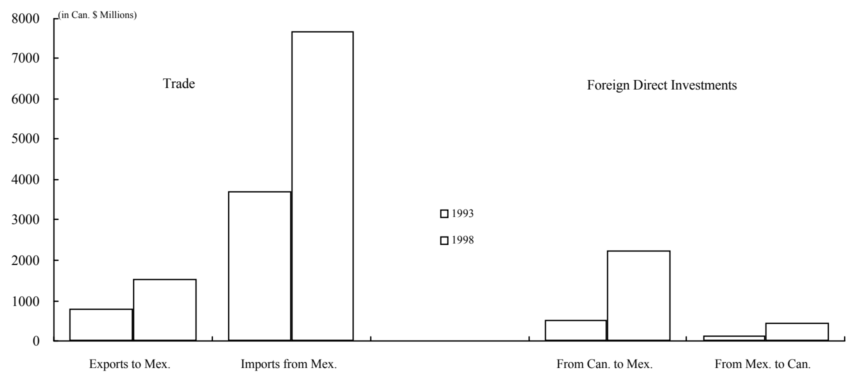
Source : The Canadian Trade Commissioner Service, Canadian Embassy in Mexico, 2000. (http://www.infoexport.gc.ca)

Trade exchanges and crossed investments

Trade between Canada and Mexico was of little significance before the 80's. As we have already said, the 80's marked the first turning point in commercial relations between the two countries. Trade increased rapidly and the commercial balance, that was up to that point positive, soon turned negative for Canada. These relations would take new turn in the 90's. NAFTA as well as economic reforms permitted Canada to extend its access in Mexico to sectors that were until then protected, particularly the financial and telecommunication sectors[46]. A more confident climate was established, more favourable for trade and investments than ever before. Although we can see a considerable growth in trade between the two countries since NAFTA as is shown in Figure 2, the growth remains modest.

[46] The peso crisis in 1994 resulted in the accelerated opening of the Mexican financial market. Foreign acquisitions have been numerous in the bank sector. Two Canadian banks, Scotia Bank and Bank of Montreal, are now present in Mexico. Scotia Bank acquired GF Inverlat in 1996 and Bank of Montreal acquired, in 1995, 20 % of Bancomer's capital.

Figure 2 : Canada's Trade and Foreign Direct Investment with Mexico
$Can. millions, 1993-1998.



Sources : Statistics Canada/Statistique Canada, *Canadian International Merchandise Trade/Le commerce international des marchandises,* n° 65-001 ; *La balance des paiements internationaux du Canada*, n° 67-001 ;
Bilan canadien des investissements internationaux, n° 67-202.

In 1998 Canada ranked 2nd in Mexico's exports market, ahead of Germany and Japan, and 4th in Mexico's imports, behind the two forementioned countries and behind, of course, the U.S. As for Mexico, it ranked 12th in Canada's exports market and 3rd among its importers.

Mexico is the main destination of Canadian exports in Latin America, with 18.4 % of the total for that region in 1998, ahead of Brazil (17.4 %), Chile (4.3 %) and Argentina (4.3 %). Between 1993 and 1998, during the first five years of NAFTA, Mexican imports to Canada have more than doubled, while exports to Mexico increased more than 65 % according to Statistics Canada. In comparison, during the same time period, Canada's imports from the U.S. increased 73 % and exports rose more than 80 %.

At the Canadian provincial level, with more than 50 % of the trade with Mexico, Ontario was way ahead of other provinces. Quebec, came in 2nd place in provincial trade, and represented in 1998, according to the *Institut de la Statistique du Québec*, a bit less than 10 % of Canada's exports to Mexico and 16 % of Mexican imports. Mexico ranked 19th among the principle export markets with a bit less than 0.3% of its total exports and 7th among its main suppliers with about 2.3% of its total imports. The statistics vary considerably each year.

A quick look at investments.

We estimate the total Canadian direct investment stock in Latin America to be about $45 billion CAD However, close to 60 % of these investments are located in the tax havens of Barbados, Bahamas and Bermuda. With $4.2 billion in investments, Chile remains, outside of the tax haven countries aforementioned, the principle destination for Canadian investments in this part of the Americas, ahead of Brazil ($2.8 billion), Mexico and Argentina ($2.2 billion each). Argentina's share increased even more rapidly from 1990 to 1998 than did Mexico's[47]. To compare, Canadian investment stock in the U.S. rose in 1998 to about $126 billion CAD

[47] Statistics Canada, Canadian international investments report, 2000, Cat. 67-202. See also, Nipa BANERJEE, *Tendances récentes de l'investissement étranger direct : une comparaison entre le Canada et les États-Unis et le*

Although the data is for obvious reasons unreliable, we estimate nevertheless the amount of investments in Canada coming from Latin America to be $3 billion CAD, Mexico leads with $0.8 billion, ahead of Brazil ($0.3 billion). Between 1993 and 1998 Mexico's direct investments in Canada tripled while Canada's in Mexico quadrupled. In comparison, U.S. direct investments in Canada increased 63 % and Canada's in the U.S. went up 86 %[48]. These investments rose to more than $147 billion.

If we now turn to Mexico's situation, we notice that between 1994 and 1998, Canadian investments represented barely 4 % of total foreign investment in the country, which placed Canada behind the Netherlands, the United Kingdom and Germany and quite far behind the U.S., responsible for 60 % of their foreign direct investments[49]. In terms of stocks, Canada's share in foreign direct investments was in 199, 2.7 %, an increase from 1990 (1.4 %). With 60 % of the total, the U.S. remains the main investor in Mexico. Nevertheless, Canada became the 4th greatest investor in Mexico. It ranked 9th in 1993. Canadian investments in Mexico are concentrated mostly in the manufacturing, financial services and mining, operations that are, for the most part, concentrated in the centre and along the northern border of Mexico.

The data reflects undeniably that there has been an increase in trade and crossed investments between Canada and Mexico since NAFTA was implemented. Economic ties grew closer, yet this does not exclude the fact that, because of the application of the original rules, there could have been embezzlement effects. On the other hand, geographical and cultural distance, as well as American market attraction are factors which continue to discourage the development of more important trade developments between the two countries. We may equally ask ourselves what kind of specializations accompany the development of these exchanges.

The structure of trade

Several general conclusions can be drawn regarding structural changes in Canadian trade with the foreign market[50]. First of all, recent studies[51] tend to show that the degree of net trade opening, as well as the degree of vertical specialization[52], increased in all industries, particularly in shielded industries and high technology industries. They also show that the comparative advantage is prevalent in exports in the primary sectors and in exports outside NAFTA. Vertical specialization combined with intra-industry trade development seems to prevail in raw materials and industrial goods sectors, automobile, machine and equipment sectors, as well as in intra-NAFTA trade, especially with regards to the U.S. Imports and exports of technology is another strong trend that is reflected in Canadian external accounts[53].

Mexique, Ottawa, La Direction de l'analyse commerciale et économique, Department of Foreign Affairs and International Trade, December 1997, Reference document, n∞2.

48 Source, Statistics Canada, Canadian international investments report.

49 ECLAC, Unit on Investment and Corporate Strategies, January 2000.

50 For a summary on this topic in Canada, see Pierre-Paul PROULX, *Étude spéciale : Les effets de l'ALE et de l'ALENA sur les économies canadienne, québécoise et américaine*, Institut de la Statistique du Québec, 1999.

51 Richard DION, *Les tendances du commerce extérieur canadien*, Revue de la Banque du Canada, winter 1999-2000, pp. 31-45. See also J.s. LITTLE, "US Regional Trade with Canada during the Transition to Free Trade", New England Economic Review, Federal Reserve Bank of Boston, January-February 1996, pp. 3-21.

52 Vertical specialization index measures the share of imported products by industry in its exports.

53 See on this topic our study, Christian DEBLOCK and Afef BENESSAIEH, "Commerce, croissance et emploi. Le cas du Canada" (Mexico, to be published 2000). The study shows in particular that, for the three NAFTA countries major changes are observed in production, employment and trade. High technology sectors and medium-high technology sectors concentrated, in 1995, 48.4 % of production and 38.5 % of employment in the manufacturing sector in the U.S., 40.5 % of production and 34.7 % of employment in Canada and 35.8 % of

Geographical distance and the concentration of trade along the border do not favour the development of intra-industry trade between Canada and the U.S. Canada's comparative advantage in resources and Mexico's in labour primarily directs the trade between the two countries. We notice nevertheless the importance of two sectors in this trade, the automotive sector and the material and electrical equipment sector that are strongly transnationalized and specialized. The increase in bilateral commercial links in these two sectors well confirms the trend towards specialization in the NAFTA zone and, by the same fact, the growing importance of intra-industry trade. This seems to confirm the trend in which trade, investment and intra-industry specialization go in the same direction in the context of deep integration.

Canada's main exports to Mexico are motor vehicle parts, agriculture and agro-food (seeds, fruit, vegetables, milk products, eggs), electrical machinery, chemical products, wood pulp, rubber and plastic products and metallurgic products. Its imports are electrical equipment, motor vehicles and parts, furniture, oil, optical equipment, metallurgic products and textile products.

Table 9 gives more details on the structure of trade between the two countries. It divides this structure into major operation sectors. We have included in the table the structure of Canada-U.S. trade. The table shows that agriculture plays an important role in Canadian exports to Mexico, even though the export of manufactured products increased. This demonstrates that manufactured products play a more important role in imports from Mexico than in imports from the U.S. As general information, between the U.S. and Mexico, exchanged goods are practically the same; they are almost all concentrated in the manufacturing sector, being in machinery and equipment and vehicles categories.

Table 9 : Canada's Trade with U.S. and Mexico, by Commodity Groups, 1995, 1997

	1995			1997		
	USA	Mexico	World	USA	Mexico	World
Exports						
Agriculture	11.0	37.3	16.7	11.3	34.8	15.4
Mining. oil.gas	15.3	8.4	15.6	15.8	6.5	16.2
Manufacturing	67.9	54.2	62.3	67.0	55.4	62.7
Others	5.8	0.0	5.5	5.9	3.3	5.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
Imports						
Agriculture	7.0	5.7	7.4	6.5	5.4	7.0
Mining. oil.gas	4.5	3.3	6.9	4.7	4.4	7.3
Manufacturing	85.8	91.0	82.6	86.2	90.3	82.4
Others	2.6	0.0	3.1	2.7	0.0	3.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source : WTO, *Annual Report*, 1998

Commerce and trade diversification

In opting for Free Trade with the U.S., Canada and Mexico's main objective was to ensure a larger and securer access to their main market. With Free Trade they were also aiming to

production in Mexico. In these countries, the share of these sectors in manufacturing production has increased compared to 1985, 1.2 percentage point in the U.S., 4.7 in Canada and 4.9 in Mexico.

create a more favorable environment for direct investment. The latter objective was reached, as was the former at least partially for Canada. Another objective was identified, thanks to an increase in productivity and competitiveness: to increase exports in other international markets. Thus, the American market came to play the role of a springboard and lever for a better integration into the world economy.

On this level, Canada and Mexico's excellent trade results are misleading. Free Trade had, it seems, mainly the effect of favoring the regionalization of trade. The American economy's strength and dynamism are without a doubt the cause. Three other factors seem to have also played a part in this : the application of rules of origin, the currency becoming extremely favorable for Canada and Mexico and the possible risks of industries and investors that are more limited in North American markets than in other markets. We can nevertheless question the observed decline in European and Asian markets in Canada's case, as well as the mild results of Canada's strategy to promote exports and investments, including those made in Mexico.

Tables 10 and 11 are quite revealing in this regard.

Table 10 clearly shows that the three NAFTA countries saw their shares in world trade more or less increase, especially Mexico and the U.S. However, as it is shown in the bottom part of the table, once intra-NAFTA trade was removed, the results are not quite as good as they initially seemed. Indeed, even if Mexico's share in world export of goods remains stable, the shares of the U.S. and Canada are, on the other hand, decreasing. As for imports, Canada and Mexico's shares remain stable, whereas the U.S.'s shares are increasing. Of course we must consider, in the case of the U.S. in particular, investments abroad and production on site. But nevertheless it seems that the three countries are having certain difficulties gaining market shares in foreign market as OECD studies tend to confirm. It also seems that, despite large increase in trade between them, the three countries continue to be very foreign oriented with respect to imports, especially the U.S., which seems to indicate that gains in competitiveness, important to Mexico, are still not sufficient to permit a strengthening of market shares in the NAFTA zone.

Table 10 : U.S., Canada and Mexico : Shares in World Trade, 1990, 1990, 1999.

	1990	1995	1999
Total	(percent of world trade)		
Exports			
U.S.	11.4	11.5	12.4
Canada	3.7	3.8	4.2
Mexico	1.2	1.6	2.4
Imports			
U.S.	14.6	14.8	18.0
Canada	3.5	3.2	3.7
Mexico	1.2	1.5	2.5
Intra-NAFTA trade not included			
Exports			
U.S.	8.2	8.1	7.8
Canada	0.9	0.7	0.5
Mexico	0.4	0.2	0.4
Imports			
U.S.	11.1	10.7	12.7
Canada	1.2	1.0	1.0
Mexico	0.4	0.3	0.6

Sources : World Trade Organization, International Monetary Fund

Table 11, showing the value of the trade intensity index for the three NAFTA countries, is along the same lines. The index is defined as the ratio of export shares of a country in the imports of another country to the total shares of exports of the country in world imports[54]. We used the WTO database. The table clearly shows that the effects of proximity and size work in favour of the U.S. and of intra-NAFTA trade. But it also shows that market shares of exports dropped in other markets, for one, as well as the value of the ratios for intra-NAFTA trade does not really show a particular trend in either direction.

[54] $I = (X_{ij}/M_j)/(X_i/M_w)$, where i represents the country in question, j the country (or the rest of the world) where exports are destined, and w the world. X represents exports and M represents imports.

Table 11 : Bilateral Trade Intensity Index
U.S., Canada and Mexico

	1990	1995	1999
U.S.			
Canada	6.1	6.7	6.5
Mexico	5.9	5.4	5.0
Others	0.7	0.7	0.6
Canada			
U.S	5.2	5.4	4.8
Mexico	0.3	0.3	0.2
Others	0.2	0.2	0.1
Mexico			
U.S	4.7	5.7	4.7
Canada	0.2	0.8	0.4
Others	0.3	0.1	0.1

Source : World Trade Organization

It is also interesting to look at the results of Canada's exports in prioritized sectors. With Team Canada, Canada has a strategy targeted towards a certain number of markets and priority sectors. Ten sectors have been identified, among which are the automobile sector, information and communication technologies, agro-food, aerospace, defence, health, plastics, etc. This list being subject to change, it is hard to evaluate Canada's performance in export matters at the time. Nevertheless, this analysis can provide some pieces of information.

Studies conducted by Team Canada in 1998 showed that reserved sectors saw their shares go down between 1990 and 1997 from 59.9 % to 57.8 % of Canada's total exports. For the U.S., this share went from 61.1 % to 58.1 % of total exports to that country. The contrary is true for Mexico, whose share went up from 62.4 % to 69.6 %[55]. A more recent study, on the other hand, indicates that between 1990 and 1998, on the basis of the new priorities, shares of the priority sector in total exports went from a little less than 47 % to close to 50 %[56]. For Latin America, taken in its entirety, this share went from 54.4 % to 65.5 % of total exports to this region during the same period. The trend is the same for Mexico, but it is much more modest. We must mention that the agro-food and automobile sectors alone, with 45.9 % and 23.9 % of the total, concentrated close to 70 % of priority exports. Many sectors, such as aerospace, environment and health, still showed decreases between 1990 and 1998.

In fact, overall Canada's trade performance is perhaps not quite as "spectacular" at first sight as statistics or official speeches assert. The improvement in competitiveness of the Canadian economy and its adaptation to economic trends in international markets is undeniable. As is shown in Table 11, from 1980 to 1995 trade by the three NAFTA countries, Mexico in particular, has become considerably diversified[57]. If it were possible to evaluate

[55] Team Canada, *Data on trade and investment*, International Affairs Directorate/ Policy Analysis Branch, Industry Canada,1998.
[56] Team Canada, *The Trade and Investment Monitor*, Autumn-Winter, 1999-2000, http://www.strategis.ic.gc.ca/sc_economy/mera/engdoc/08.html
[57] Index, the range is between 0 and 1. The closer it is to 0, the more trade is diversified.

which of Mexico or Canada benefited more from NAFTA, numbers indicate that on the level of trade, as in its pro-active trade policy, Mexico put all its efforts into diversifying its trade partners and became a major player in the hemispheric chessboard. However, the strategic partnership that Canada wanted to implement with Mexico to improve relations in Latin America demands additional efforts. For Canada, as outlined by OECD in its 1998 Canadian economic Study, Canada's structural performance is, compared to other countries such as the U.S, "mediocre"[58]. We believe it is not quite as "mediocre" as the organization stated, but it is far from being entirely satisfactory[59]. The breakthrough of exports in certain promising sectors is also notable. However, we can wonder if the results obtained are worth the efforts taken in exports, as well as in investments in the new economy. We may also question whether the constant deterioration of Canada's trade balance with Mexico is perhaps in reality an indicator of certain bad effects of free trade. Favouring a deep integration in the NAFTA area, free trade would accentuate the strengths and the weaknesses of countries on the level of competitive advantage. This is only a hypothesis, but reflects actual concerns of the Canadian government in issues of investments, productivity, and more aggressive formation and penetration in exports markets, as it is shown in this recent trade document[60].

Table 12: **Concentration and "Diversification" Indices of Exports**
Mexico, Canada and U.S., 1990, 1994, 1995

	Diversification Index			Concentration Index		
	1980	1994	1995	1980	1994	1995
Mexico	0.523	0.397	0.384	0.475	0.129	0.121
Canada	0.513	0.410	0.391	0.109	0.139	0.134
U.S.	0.426	0.272	0.262	0.064	0.073	0.068

Source : UNCTD, *Handbook of International Trade and Development Statistics*.
Note : Both indices range between 0 and 1, with the latter representing the most extreme concentration.

[58] See the special issue in which *Canadian Journal of Economics* examines the issue of productivity : Vol. 32, n∞2. April 1999
[59] John, McCALLUM, ÏALE : un traité deux-étoilesÓ, Econoscope, Banque Royale du Canada, vol. 23, n∞ 6, 1999
[60] On this topic, see DFAIT/MAECI, *Ouverture sur le monde. Priorités canadiennes en matiÀre d'accÀs aux marchés internationaux 2000*, Ottawa, Avril 2000.

CONCLUSION

In this text we discussed economic relations between Canada and Mexico on two levels : first on the political level and then on the level of statistical facts. On both levels, there have been significant changes since the implementation of NAFTA. On the political level, Mexico became Canada's strategic partner and on the economic level, it became Canada's main trade partner in Latin America. All evidence seems to indicate that intergovernmental cooperation and trade between the two countries shall develop and deepen even more in the coming future.

It appears, however, on the political level that this closer cooperation between the two countries is faced with three problems or challenges. The first of these problems comes from being the neighbour with a powerful country, the U.S, who have much bigger hemispheric and international ambitions than Canada and with whom, considering the particular and privileged relationship that Canada and Mexico have with this country, Canada must cope more and more on the diplomatic scene as well as on the trade scene. The second problem is related to the fact that Canada's trade strategy, focused, similarly to Mexico's, on trade promotion and international investment as a growth engine, tends more to assert in this partnership Canada's economic interests than Canadian values, culture and institutions. Finally, the last problem is that this partnership concerns two fundamentally different countries: one with an advanced economy, and the other with an emerging economy.

On the economic level, it appears that the development of relations by Canada and its Southern partner is also facing three problems. The first problem is that, so far, trade relations between the two countries are mainly developed outside of the relations that each of them have with the U.S, which is becoming weightier for both their respective economies. The second problem comes from the fact that, in a deep integration context, both countries are placed in a systematic rivalry situation, whether on the level of foreign investment attractiveness or on the level of intra-industry specializations within multinationals' production affiliates. Lastly, the third problem is that both countries more or less did not succeed as they wished to improve their trade position in other major markets of the world economy.

It appears, so far, that these problems have been largely underestimated by the Canadian government and eclipsed by the trade concerns. The excellent trade results with the U.S. and the good climate between Canada and Mexico have clouded the image of this relation and brought about satisfaction regarding the implemented strategy, whether in regards with Mexico in particular or Latin America in general, which seems to be an exaggeration in the present context. Economic trends tend, on the contrary, to show certain worrying signs, beginning with the trade level. Having developed quickly, Canada-Mexico economic relations remain quite limited and increasingly negative for Canada, which would tend to confirm the thesis of those who, like Parragariya or Bhagwati, contest the Krugman hypothesis of natural trade zones. If Canada and Mexico can be considered natural partners of the U.S., the same is not true for the two countries together.

Too much concerned with its interests in trade, Canada, until now, did not sufficiently prove that it was able to exploit its « sympathy advantage » with other Latin American countries in order to assert its own values, to get much closer to its other partners in the Americas and to make cooperation between countries better balanced and more concerned about the values, social rights and economic rights of all countries involved. If the idea of a community of the Americas must arise, it is important that Canada shows more audacity and initiative, even if it would bring about tension in its privileged relation with the U.S. The partnership relation that Canada wishes to develop with Mexico could be, in this case, a test. In other words, if NAFTA indeed created a new dynamic in bilateral relations between Canada and Mexico, it is now time for Canada to focus on this dynamic in a more material direction. First by giving a more solid foundation to economic relations between the two countries, which has not been the case so far; and secondly by having a more positive turn to their bilateral cooperation, which would demand the discussion of issues of common interest from a perspective that is less national and more regional.