

**Manipulating Multilateralism:  
Canada and Economic Integration in the Americas**

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# **Manipulating Multilateralism: Canada and Economic Integration in the Americas**

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## **I. Introduction**

There is a long-standing focus in Canadian foreign policy analysis on the importance of relations with allies. Canada has a tradition of coordinated behaviour with like-minded states on various aspects of its foreign policy, ranging from military, to cultural, to political, to economic affairs. Many prominent analysts of Canadian foreign policy have concluded that Canada's "multilateral tradition" guides and protects Canadian domestic interests, and allows us to advocate global ideals; multilateralism, it has been ascertained, is Canada's "best option" for pursuing national and international interests.<sup>1</sup> It has also led many to the judgment that Canada's foreign policy is dependent, is largely responsive to the wishes and interests of our more major allies, and devoid of any emphasis on the "national interest."

This paper suggests an alternative view: that multilateralism actually has led to a degree of independence in Canadian foreign relations. In particular, the paper argues that Canada has pursued economic multilateralism in the Americas to maintain some influence over American economic foreign policy, and to benefit its strategic bilateral trade relationship with the United States. Given its middle power status, Canada has achieved a level of influence in its foreign policy through organizational links

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<sup>1</sup>See, for instance, Tom Keating, Canada and World Order: The Multilateralist Tradition in Canadian Foreign Policy, (Toronto: McClelland and Stewart, 1993).

with other states that it otherwise would not have realized. Consensus-building and the ability to articulate independent views simply would not be possible were it not for institutional fora that permit the involvement and capacity of non-system determining powers, such as Canada.

This paper begins with an overview of the concepts of multilateralism and the national interest. It then presents some thoughts concerning the tradition of multilateralism in Canadian foreign policy. Next, the paper offers a review of Canadian multilateral economic commitments in the hemisphere of the Americas. The intention here is to demonstrate how the Canadian national interest has been supported through multilateral behaviour. Regional economic integration in the Americas, it is contended here, represents one of the most dynamic arenas of institution-building and multilateralism. This is especially consequential for Canada's trading position with the United States, and in the region. Furthermore, both the substance of the North American Free Trade Agreement (NAFTA), as well as the tenor of the current pre-negotiation phase of a deeper Free Trade Agreement of the Americas (FTAA), demonstrate a key role played by Canada in its efforts to pursue its interests.

## **II. Multilateralism and the "National Interest"**

Though a greatly contested concept, multilateralism is generally accepted to mean the integration of a decision making process or approach that consists of three or more independent political actors.<sup>2</sup> Decisions made by parties to a multilateral arrangement are the product of a conscious

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<sup>2</sup> Robert O. Keohane, "Multilateralism: An Agenda for Research," *International Journal*, 45(4), Autumn, 1993; John Gerard Ruggie, ed. Multilateralism Matters: The Theory and Praxis of an Institutional Form, (New York: Columbia University Press, 1993).

*coordination* of national policies, usually embedded in an international political structure or organization.<sup>3</sup> Specific actors work through multilateral arrangements in order to advance their interests through international contact. Moreover, there is a common understanding that states employing multilateralism do so in the expectation that such behaviour will reap gains that otherwise could not be achieved through unilateral action. Though rather limited, the Canadian foreign policy literature has critically explored the concept of multilateralism to some extent.<sup>4</sup>

Multilateralism is also an active concept. As its suffix implies, multilateralism includes a certain ideology regarding the activation of normative ideas regarding mutual initiatives and courses of action: collective action is perceived to be a worthy endeavour that will result in mutual benefits unobtainable through other means.<sup>5</sup> Yet this is not to suggest that all involved will achieve a similar result; in fact, the traditional issue of power as defined as capacity, as function, and in terms of resource capability are important in multilateral coordination. As Peter Gourevitch illustrates in his exploration of policy choice models in economic foreign relations, dominant groups will still be more proficient at implementing preferred policy options.<sup>6</sup>

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<sup>3</sup>Ruggie, ed. Multilateralism matters.

<sup>4</sup>David Black, and Claire Turenne Sjolander, "Canada in the Transition: Prospects for a Re-constituted Multilateralism" (Ottawa: Canadian Political Science Association, 6-8 June 1993); William Diebold (Editor), Bilateralism, Multilateralism and Canada in US Trade Policy, (Washington: Council on Foreign Relations, 1988).

<sup>5</sup> James A. Caporaso, "International Relations Theory and Multilateralism: The Search for Foundations," International Organization, 46(3), Summer 1992.

<sup>6</sup>See Peter Gourevitch, Politics in Hard Times: Comparative Responses to International Economic Crises, (Ithaca: Cornell University Press, 1986). Also, Peter Cowhey has argued that multilateralism "works" when a hierarchy exists: major powers must play the major roles, and the

Multilateralism suggests a political movement aimed at implementing the normative aspects of beneficial collective action. Therefore, multilateralism is not merely the interaction of states in the international arena. In addition, it involves the assumptions of shared benefits, reciprocity among participants, and a regulated environment. Rule creation and adherence, according to the logic of multilateralism, results in improved conditions for participants. As illustrated later in this paper, both the structure and the form of multilateralism as a concept matches what Canada has done with regard to regional trade integration.

Multilateralism, then, is fundamentally a *relational* phenomenon that involves several areas of interaction among parties. First, there is a degree of integrated decision making, in order to account for the views and concerns of allies. Second, multilateralism implies a level of coordination of policies so as to avoid, or at least reduce, negative effects felt by participants. Third, policies developed in a multilateral framework also involve an amount of cooperation in the actual alignment of national policies so that mutual benefits may be maximized. This is not to suggest, however, that benefits are necessarily equal. Given the differing levels of power possessed by individual members in a multilateral arrangement, benefits may come in a variety of proportions for each. However unquestionably varying the profits from multilateral systems may be, they do not imply a zero-sum gain – all parties may benefit from a multilateral order, yet some may benefit more than others. Fourth, in its most extreme representation, multilateralism may also include the substantive integration of policies, creating common

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commitment of major powers to multilateralism must be believable for other players to want to participate. Peter Cowhey, “Elect Locally -- Order Globally: Domestic Politics and Multilateral Cooperation,” in John Gerard Ruggie, ed., Multilateralism Matters: The Theory and Praxis of an Institutional Form, (New York: Columbia University Press, 1993).

objectives and goals among several states.

In a global system of economic interdependence, the multilateralism “option” presents opportunities for national governments to not just integrate their policies with like-minded states, but also to entrench their particular interests in economic regulatory regimes such as trading blocs and institutions. As Richard Cooper suggested over three decades ago, truly independent economic policy is difficult at best, and more likely simply improbable, in an integrated international market system.<sup>7</sup> Harmonized pluralistic regional arrangements, as Deutsch suggested even in 1957, are the logical option for individual states seeking influence within the context of growing trade, communications, and population movement.<sup>8</sup> For Canada, the form and practice of multilateralism as a concept has been largely mirrored in the exercise of foreign policy. Importantly, the policy objectives inherent in multilateral economic behaviour serve as a guide for Canadian relations, and as a set of principles for means and ends. In short, multilateralism in Canadian foreign economic relations is driven by the national interest.

The use of the term “national interest” in government statements and comments usually brings with it the criticism – especially amongst academics – that “the national interest” is nothing but a catch-all justification, based on a woolly and imprecise measurement of interests. This criticism is unavoidable to a degree, since the core interests of a nation are influenced by the intangible element of perception by decision makers. In this light, categorizing or quantifying the national interest in a manner that satisfies

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<sup>7</sup>See Richard Cooper, The Economics of Interdependence, Economic Policy in the Atlantic Community, (New York: McGraw-Hill, 1968).

<sup>8</sup>Karl Deutsch, Political Community and the North Atlantic Area, (Princeton: Princeton University Press, 1957).

all is impossible. Yet the decision making process is necessarily informed by the normative opinion of those involved and the collective decisions of policy makers.

Despite its ambiguity, the national interest is fundamental for any government's foreign policy. It is a term that defies concrete definition and therefore is often criticized for its inability to predict behaviour or form an explanatory model for all decisions. To that extent, the national interest is not a tool for prediction. Yet as Gordon Schloming has argued, investigating a nation's interests reveals the “guiding principles of its foreign policy and how it coordinates means and ends.”<sup>9</sup> As a guide and coordinator of ideals, the national interest is not just another variable affecting decisions; it is a highly nuanced determinant, and one that brings to bear the underlying sentiment and intent of the decision makers that employ it.

A country's national interest may be briefly defined as that which contributes to its self-preservation, national security, sufficiency, and prestige.<sup>10</sup> More substantively, however, the interests of a nation are influenced by both subjective and objective bases – this is why the term is of little use for predicting behaviour, outside of the widest parameters of what matters to a nation's preservation and well-being. A nation's objective interests are those it seeks to protect through its foreign policy: the preservation of its territorial integrity, the maintenance of political administration, and the defence of its resources, values and identity, for example. Foreign policy decision making and these objective interests form something of a tautology: the objective interests exist and inform policy, which in turn

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<sup>9</sup>Gordon C. Schloming, Power and Principle in International Affairs, (Toronto: Harcourt Brace Jovanovich, 1991), 412.

<sup>10</sup>See Robert Endicott Osgood, Ideals and Self-Interest in America's Foreign Relations, (Chicago: University of Chicago Press, 1953).

seeks to maintain and strengthen the interests. There is, then, a universal core to these objective interests because they are necessary for the preservation of the state itself.

Normative values and political considerations confuse the more self-evident side of the national interest creating an ill-defined subjective bias that relates to the ordering of priorities in foreign policy. As Hartmann and Wendzel have argued, this half of the national interest equation is often used to explain a decision *post facto*, or “as an accepted thing.”<sup>11</sup> Subjective considerations create unavoidable problems for applying the term, leaving many analysts to simply ignore it. However, there are no useful alternatives to the national interest question – even with its subjective impediments – and a consideration of it in foreign economic policy analysis provides a much richer conclusion because it incorporates the process of political decision making and policy prioritization. The subjective interpretation of the national interest places political values above the “science of means and ends”<sup>12</sup> associated with the hierarchically ordered interests of the state. Subjective influences on foreign policy change according to the evaluation of the individuals involved, and the environmental milieu within which the decisions themselves are made. This does not mean that the national interest cannot be utilized; rather, it suggests that in foreign policy analysis a balance must be struck between the objective and immediate concerns of a nation and its political values. In other words, the national interest as the

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<sup>11</sup>Frederick H. Hartmann and Robert L. Wendzel, America's Foreign Policy in a Changing World, (New York: Harper Collins, 1994), 33

<sup>12</sup>Gordon C. Schloming, Power and Principle in International Affairs, (Toronto: Harcourt Brace Jovanovich, 1991), 413.



“goals that are sought by the state”<sup>13</sup> incorporates an objective rationale, and the relative importance of political interests.

### **III. Canada and the Tradition of Multilateralism**

In just over a decade, Canada has joined the Organization of American States (OAS), urged that Chile be considered for membership in the NAFTA, deepened its political and trade association with states in Central and South America, and forged a lead role in preliminary discussions concerning a FTAA. Outside of the hemisphere, Canada has also entrenched relations with European Union (EU) and Asia Pacific Cooperation (APEC) members. These policy initiatives are illustrative of a strong commitment to multilateralism in Canadian foreign economic relations.

Despite the fact that multilateralism has had a considerable role in contemporary Canadian foreign relations, there is a dearth of analysis of Canadian national interests and multilateralism. Principal works in Canadian foreign policy have documented the rise in multilateral links,<sup>14</sup> but none have examined this in the broader context of goal-setting and independence in policy.

Contemporary reviews have shown that Canadian foreign policy in the twentieth century has emphasized integrating policies with other actors in the world arena. As a consequence, it has often

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<sup>13</sup>Stephen Krasner uses this simple definition of the national interest in Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy, (Princeton: Princeton University Press, 1978), 12.

<sup>14</sup>Kim Richard Nossal, The Politics of Canadian Foreign Policy, (Scarborough: Prentive Hall, 1997); Andrew F. Cooper, Canadian Foreign Policy: Old Habits and New Directions, (Scarborough, Prentice-Hall, 1997); A. Claire Cutler and Mark W. Zacher, Eds. Canadian Foreign Policy and International Economic Regimes, (Vancouver: UBC Press, 1992).

been suggested that Canadian multilateral commitments have resulted in a “dependent” foreign policy, where Canadian wishes and activities are tightly, or even overly, associated with its partners and allies. Drawing from this, one might conclude that the national interest in Canada – the pursuance of policies in the interest of the nation – is disregarded in the broader effort to coordinate policies with others.

However, the broader goals and activities of Canadian foreign economic relations suggest that this is not the case. Canada has had a central role in the creation, sustenance, and strengthening of multilateral economic institutions in the post-World War II and post-Cold War eras. As a consequence, multilateral fora have had significant influence for Canadian foreign relations in general, and also reflect, to a degree, Canadian values and interests.<sup>15</sup> Over time, Canadian emphasis in multilateral behaviour has shifted from strategic to economic goals in its links with regional associations, relations with greater powers and the Third World, and membership in both closed and open international institutions. As Michael Hart has argued, Canada’s failure to transform itself into a globally competitive trading nation has been mitigated by its success in facilitating multilateral agreements.<sup>16</sup>

Others have taken issue with the customary argument that Canada has always been a strong proponent of multilateral behaviour for altruistic reasons, or the good of the international system. In fact, our common notions of Canada’s “function” in world politics at times conflict with the rationale for undertaking certain endeavours. Peyton Lyon and Brian Tomlin, among others, have explored the

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<sup>15</sup>William Diebold argues that multilateralism became the preferred policy option after World War II, and that the substance of post-War multilateralism is also evident in bilateral arrangements such as the Canada-United States Free Trade Agreement (CUFTA). See Diebold, Bilateralism, Multilateralism and Canada in US Trade Policy, (Washington: Council on Foreign Relations, 1988).

<sup>16</sup>Michael Hart, What’s Next? Canada, the Global Economy, and the New Trade Policy, (Ottawa: Centre for Trade Policy and Law, 1994).

conceptions and attitudes that surround Canadian “roles” in world politics. “Mediator,” “middle power,” “community-builder,” “peacekeeper,” and “bridge,” Lyon and Tomlin suggest, characterize Canadians’ self-perception of their influence in the international system.<sup>17</sup> However, outside the parameters of a nation’s self-perception, the actual role played is influenced by environmental factors, as well. Canada the “selflessly multilateral nation,” Ernie Keenes has argued, is an incorrect image of Canada’s more basic objectives in its foreign policy.<sup>18</sup> Rather, Keenes and others have suggested, Canada’s goals – particularly in the economic sphere – have a more self-serving, realist mindset.

All of this has a direct, and crucial, bearing on the conduct of Canadian foreign economic relations. The belief system underlying multilateralism implies that dominant attitudes and dispositions have an important influence on the decision to work with others to achieve goals. Moreover, the fact that all nation states seek objectives in the broader guise of their national interest – the pursuance of policies that create, maintain, and enhance the security and welfare of a country – raises an intriguing issue concerning Canadian foreign economic relations: how and why Ottawa follows principles and policies that aim to supplement the Canadian national interest through collective behaviour (multilateralism). There are two fundamental forces at issue here that are, at first glance, at odds – seeking an independent policy, yet doing so within a unified or multilateral forum.

Importantly, for Canada, multilateralism creates the conditions and environment for effective action by weaker powers in the international system. As Dewitt and Brown have noted,

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<sup>17</sup>Peyton Lyon and Brian Tomlin, Canada as an International Actor, (Toronto: Macmillan, 1979).

<sup>18</sup>Ernie Keenes, “The Myth of Multilateralism: Exception, Exemption, and Bilateralism in Canadian International Economic Relations,” International Journal, 50 (Fall 1995).

“multilateralism gives marginally regional actors opportunities for responsible participation without the perceived intent or actual attributes of great power-style intervention, while ensuring that states of and in the region do not lose control over the agenda while having a forum (“regime”) to constrain the actions of the more powerful.”<sup>19</sup>

For smaller states such as Canada, the effect of multilateral agreements is, according to John Ruggie, “diffuse reciprocity” – the acceptance coordinated and mutually beneficial relations through collaboration, suasion, and negotiated assurance, often without specific and formal institutions.<sup>20</sup> For more modest economic states such as Canada, working together multilaterally secures reciprocal behaviour with partners. This is the essence of the national interest for Canada.

Seen in this light, multilateralism presents a distinctive opportunity for Canada because these settings allow weaker states to coordinate decision making and policy implementation with others, thereby creating greater authority and influence in the international system. States that either are able to determine the structure of the international system, or have close access to states that do, are in a position to shape and influence the alignment of policies of allies. States that maintain favorable multilateral memberships (those relationships that allow for the state to contribute to the structure of the international system and the adjustment of foreign policies within it) thereby are likely to affect the process of international affairs in a manner that would be impossible through individual action. Analysts

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<sup>19</sup>David Dewitt and David Leyton Brown, eds., Canada's International Security Policy, (Scarborough: Prentice Hall, 1995).

<sup>20</sup>John Gerard Ruggie, “Multilateralism: Anatomy of an Institution,” International Organization, 46 (Summer 1992).

such as Robert Keohane have advocated multilateralism as an effective tool for gaining a better understanding of the decision-making process that leads to foreign policy adjustment and coordination; other approaches that largely ignore decision-making, such as neo-realism, are deficient in this area of analysis.<sup>21</sup> Some observers, such as Miles Kahler, agree, and in addition propose that even the smallest of multilateral agreements provides for participants beneficial opportunities for goal attainment through efficient and legitimate decision-making mechanisms.<sup>22</sup>

#### **IV. Canada, Global Trade, and Regional Economic Integration**

Canada is one of the most trade-dependent states in the international system, and its economy has been increasingly tied to that of the United States. At that same time, Canada has enjoyed a very strong rate of economic growth, and one of the leading per capita economies in the Organization for Economic Co-operation and Development (OECD). Canada has sought increasing free trade as a means of supporting a small domestic consumptive market through greater integration with larger economies. In addition, Canada's increasingly synchronized economic relations with the United States has caused it to look beyond Canadian-United States links to the broader American hemisphere,

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<sup>21</sup>Robert Keohane, "Multilateralism: An Agenda for Research," International Journal, 45 (Autumn 1990). On the other hand, others have suggested that multilateralism may be explained using a variety of theoretical frameworks. James Caparaso argues that the realist argument of rational self-serving choice, the liberal social-communicative explication, and the functional, or neo-liberal institutionalist focus on the utility of institutions may all be clarified by multilateralism. See James Caparaso, "International Relations Theory and Multilateralism: The Search for Foundations," International Organization, 46 (Summer 1992).

<sup>22</sup>Miles Kahler, "Multilateralism With Small and Large Numbers," International Organization, 46 (Summer 1992)

notably through NAFTA, and more recently with efforts to create a wider FTAA. Canada has sought deeper trade links with the hemisphere not for reasons of an expanding trade base in the region, but rather to maintain a degree of control over the movement of the United States economy, to benefit its strategic bilateral trade relationship with the United States.

Canada's economy is among the world's most dependent on trade. Of Canada's total 2000 Gross Domestic Product of \$1,233 trillion (Canadian dollars), over 65 percent came as the result of trade, import and export, with other nations.<sup>23</sup> This level of dependence on the global economy is important, inasmuch as it demonstrates that two-thirds of Canada's economic strength stems from trade with other nations. As a means of comparison, the effect of global trade on the overall 2000 GDP of \$15.85 trillion (Cdn) in the United States, was just over 20 percent. There are various reasons for the level of acute interdependence of the Canadian economy with global trade.

To begin, the relatively small consumer market base in Canada of just over 21 million (roughly 68 percent of the total 2001 Canadian population of 31.6 million)<sup>24</sup> is simply unable to absorb the productive magnitude of an economy of over \$1.2 trillion. Export markets, for which Canada earned \$433.6 billion in 2000, are a vital aspect of the Canadian economy.

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<sup>23</sup>Unless otherwise noted, all figures in Canadian dollars. Furthermore, GDP-based calculations here are based on purchasing power parity (PPP) assessments, rather than simple conversions of official currency exchange rates. PPP methodology consists of standardised international dollar price values as they relate to quantities of goods and services produced. *Sources*: Statistics Canada; the Department of Foreign Affairs and International Trade, Canada; and the United States Central Intelligence Agency *The World Factbook 2001*.

<sup>24</sup>Age distribution in any economy is an important factor in establishing a consumer base. In 2001, over 6 million Canadians were 15 years old or younger. A proper assessment of a consumer base needs to consider age distribution as well as total population.

In addition, the nature of the Canadian economy is significant, as well. Despite the belief that Canada's economy is driven by primary industries, most of the total economic activity in Canada is derived from manufacturing, research and development, and service industries. For example, agriculture as a sector in the Canadian economy only contributes about 3 percent of Canada's total GDP. Manufacturing industry supplies 31 percent, and the service industry in Canada generates approximately 66 percent of Canadian GDP. For the labour market in Canada, almost three-quarters of those employed in 2000 were in the service industry (74 percent), while 15 percent were in manufacturing, 5 percent in construction, and 3 percent in agriculture. The notion that Canada is a nation of "land and sea," then, does not accurately reflect a very diverse and innovative economy.

Finally, and most importantly, Canada's economy heavily depends on trade as a result of a highly integrated economic relationship with the United States. In 2000, over 86 percent of Canadian exports were destined for the United States, and over 76 percent of all goods and services imported to Canada came from the United States. For the United States, Canada represents its most important trade partner, as well. However, the level of dependence on Canada for the United States is much lower. In 2000, 23 percent of American exports were destined for Canada, and 19 percent of imports originated in Canada. Unlike Canada, where the second largest trade partner, Japan, only totalled 3 percent of both exports and imports, other countries signify a significant portion of import and export markets for the United States. For instance, Mexico was the destination of 14 percent of American exports in 2000, and both Japan and Mexico each represented 11 percent of imports to the United States. Nevertheless, Canada remains the United States largest trading partner, and investment and multinational corporate activity between the two countries only increased the level of mutual

dependence.

The mutual interest in free trade shared by Canada and the United States is clearly based on common economic concerns. Both Canada and the United States, though the United States to a lesser degree, seek broadened access to free trade as a means of benefiting domestic consumer markets and trade-dependent production. However, there are considerable contrasts between Canada and the United States in the pursuance of hemispheric free trade. Whereas the United States has continually sought a set of broader markets for imports and exports, the Canadian desire has been to deepen its economic harmonization with the United States.

Following the implementation of the Canada-United States Free Trade Agreement (CUFTA) on 1 January 1989, the United States began negotiating a separate bilateral agreement with Mexico. Canada initially was not invited to join these free trade negotiations, in part due to the very low level of bilateral trade between Canada and Mexico. However, Canada quickly requested to be involved in the deliberations, though not because of burgeoning trade with Mexico. In 1988, the year before free trade negotiations with Mexico began, total trade between Canada and Mexico was only \$1.63 billion (Cdn), while Canada-United States trade that year was over \$250 billion (Cdn). On the other hand, being present at the table meant that Canada could seek to avoid any negative repercussions of a new free trade agreement between the United States and Mexico, and curtail any “hub and spoke” mentality about free trade that existed in Washington. By being part of the negotiations, Canada could protect its favoured access to the American market and better guard its position as principal trade partner to the Americans. Effectively, the bilateralism component of the CUFTA had shifted to “trilateralism.” This has since become the new “multilateral” mandate for trade in the Americas.



As negotiations took shape among the three countries, it became clear that a successful agreement would create the world's largest free trade zone. The NAFTA, which was implemented on 1 January 1994, covers over 360 million people, with a combined GDP of over \$18.5 trillion (Cdn).<sup>25</sup> There were varying reasons for each of the NAFTA member countries to pursue a trilateral deal. For Canada, the primary rationale for a widened CUFTA arrangement hinged on continued access to strategic markets in the United States. Concerns were raised in Ottawa as the United States and Mexico initiated bilateral free trade talks, that Mexico could pose a serious threat to coveted import-export trade and investment between Canada and the United States. Indeed, the resulting experience has borne out some of these concerns, as Mexico has risen in stature in terms of its economic importance in the United States.

There were similar reasons for Mexico's involvement. Since the United States is easily the most important economic actor in the Mexican economy, closer Canadian-American ties led Mexico City to accept suggestions for a bilateral trade agreement as a means of securing its continued role as a key economic partner with the United States. To that end, Mexico has been largely successful, and has seen its relative level of trade with the United States increase yearly since the signing of the NAFTA. The United States is now the destination of over 88 percent of Mexican exports, and is the source of almost 74 percent of incoming trade. Furthermore, Mexico sought to offset the growing influence of Brazil's economic leadership among the Latin American countries of the hemisphere.

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<sup>25</sup>Source: Country ViewsWire, the Economist Intelligence Unit, *The Economist* (February 2002).

Although it can be argued that Canada and Mexico shared common reasons for pursuing a free trade arrangement with the United States, and that Canadian-Mexican integration was, and remains, largely an additional benefit, the calculation of the United States for the NAFTA was different. Facing stronger economic challengers in Europe, in Japan, and even China, regional leadership in the Americas represented, and continues to represent, a logical target for American economic objectives. Despite the failure to create a multi-faceted arrangement of bilateral agreements, the aforementioned hub and spoke design that would have given the United States the upper hand in hemispheric trade, the NAFTA represented a beneficial alternative for American economic interests.

Canada currently accounts for 3 percent of the export share of world trade. In relative terms, the United States embodies 13.3 percent, and Mexico 0.9 percent of the global total.<sup>26</sup> Canada ranks eighth in the world in terms of its share of exports, and over 86 percent of all these exports go to Canada's NAFTA partners. Canadian exports as a percentage of GDP was 45.6 percent in 2000; imports as a percentage of GDP that year stood at 41 percent. These figures have been increasing steadily since the signing of the CUFTA in 1988, and since 1994, Canada's economic growth rate has averaged 3.8 percent (4.3 percent in 2000), highest among the G7 nations.<sup>27</sup> Clearly, Canada's economic strength hinges on international trade.

Canada's international trade; however, concentrates on a single partner -- the United States. Canada's merchandise trade with the United States reached \$588.7 billion in 2000, and total two-way

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<sup>26</sup>Calculated from World Bank International Economics Department data available on-line from the Bank Economic and Social Database (BESD).

<sup>27</sup>Source: Statistics Canada; Department of Foreign Affairs and International Trade, Canada.

trade with the United States was over \$700 billion that year. Almost \$2 billion dollars in total trade between the two nations takes place on a daily basis, making the bilateral trade relationship the largest in the world. Furthermore, trade between the two nations has increased an average of 11 percent every year since the CUFTA was signed. The trade balance in 2000 was \$63.5 billion in favour of Canada, largely due to an imbalance of investment from the United States. In 2000, the United States invested \$150 billion in the Canadian economy, and Canadian investment in the United States totalled \$130 billion. Moreover, as previously mentioned, the United States by far is the largest receiver of exports and source of imports for Canada.

Turning to Canada's other NAFTA partner, trade is the single-most important aspect of the bilateral relationship between Canada and Mexico. It nearly doubled between 1993 and 1998. By 1998 two-way trade reached \$8.9 billion<sup>28</sup> making Mexico Canada's most important Latin American trade partner. In 1994 two-way trade grew by 23.3 percent and in the years since, annual growth rates have been around 12-15 percent. Trade with Mexico in 2000 totalled \$14 billion, the highest it has ever been. On the other hand, Canada's economic relationship with Mexico is still relatively insubstantial. Although Mexico by 2000 had risen to the second largest source for Canadian exports, and the tenth largest importer of Canadian goods and services, the numbers still pale compared to the Canadian-United States relationship.

The signing of the NAFTA had an impressive effect on Canadian-Mexican trade. In 1998 Mexico held a \$6.3 billion merchandise trade surplus with Canada. By 2000, the trade surplus enjoyed

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<sup>28</sup>SECOFI (Mexican Trade Ministry).

by Mexico had risen to \$10 billion, largely due to the rise in international oil prices. The exports of both nations to the other have become increasingly diverse, with value-added goods now comprising over 50 percent of Canada's exports to Mexico. For Mexico's part, electrical machinery, other machinery and vehicles currently constitute over 70 percent of exports to Canada, but the remaining 30 percent is made up of a diverse selection of products, both primary and finished.<sup>29</sup>

The combined effect of a rapid reduction in trade barriers in Mexico because of the NAFTA and the stimulation of exports in both countries has made an immense difference in the bilateral trade relationship. Furthermore, since 1997, Canada has accelerated tariff reductions on 28 categories of Mexican products. Mexico has reciprocated with accelerated reductions on 41 Canadian export categories.

In 1990 Canada was only a minor investor in Mexico, with Canadian Foreign Direct Investment (FDI) standing at \$245 million. By 1997 that figure had gone up to \$1.09 billion, and the total accumulated value of Canadian direct investment in the country stood at \$2.1 billion. By the end of that year Canada had become the fourth largest investor in Mexico, up from ninth in 1993. In 2000, Canadian investment in the Mexican economy grew to \$3 billion, while Mexican investment in Canada was at an all-time high of \$470 million. The growth in trade, but more importantly the Chapter Eleven provisions of the NAFTA guaranteeing the security of investments by citizens of fellow NAFTA countries have encouraged this dramatic growth.

Another factor leading to increased Canadian investment and to future growth in this area is the

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<sup>29</sup>Statistics Canada

aforementioned privatisation and economic modernisation process in Mexico. There are very few restrictions still in place on foreign investment in Mexican companies, and the NAFTA has served to further liberalise the environment for Canadian investors. However, Canadian foreign investment in Mexico is still relatively small. Within Latin America, for example, Canadians have invested more in Brazil and Chile than in Mexico. Nonetheless, the rate of increase of Canadian FDI in Mexico suggests that Mexico is becoming an important destination for Canadian capital. This trend likely will continue and indeed accelerate as Canadian corporations continue to take advantage of new opportunities which have emerged as a result of the privatisation process in Mexico.

Despite the increase in economic activity between Canada and Mexico, there can be no doubt that Canada in NAFTA is primarily interested with its relationship with the United States. Though economic involvement in Mexico is building, Canadian trade, commercial, and investment relations with that country will continue to be directed by United States-Mexican integration, and the general process of trilateral economic desegregation.

Following the successful negotiation of the NAFTA, the Free Trade Agreement of the Americas (FTAA) was launched at the Miami Summit of the Americas meeting in December, 1994. A total of 34 nations in the hemisphere agreed to negotiate the provisions for a pan-continental agreement that would progressively eliminate trade and investment barriers, with 2005 in sight as the year for completion. At the fourth ministerial meeting of FTAA member states, held in San José, Costa Rica in March 1998, the general structure and principles of the negotiating forum were agreed upon, and dialogue toward a FTAA began in April of that year in Chile, with the Second Summit of the Americas. Negotiations are to be transparent and consistent with World Trade Organization (WTO) rules, and all

decisions are to be met with consensus by the 34 nations. The draft text of the FTAA agreement was completed after the Third Summit of the Americas, held in Quebec City in 2001. The text was made publicly available.<sup>30</sup>

The FTAA is not intended to necessarily replace other existing bilateral and sub-regional agreements. In fact, given the plethora of other free trade agreements in the region, it is notable that member states may accept the obligations and responsibilities of the FTAA either in the context of an independent member, or as part of another sub-regional group.

In many ways, the FTAA is a logical offshoot of the existing NAFTA. As economic integration deepens in both Europe and Asia, it is not surprising that countries in the American hemisphere seek to increase trade and commercial links in the region as a means of providing benefits to member states and to guard against possible negative effects of the new regionalism. For Canada, the tradition of multilateralism is very much alive in its aspiration for an integrated FTAA structure. As the United States seeks heightened economic links with the rest of the hemisphere, Canada has maintained a commitment to a multilateral process as a way of protecting its unique relationship with the United States. From a bilateral, to a trilateral, and now a multilateral forum, Canada has consistently sought to protect its economic interests in the hemisphere through greater integration and trade and investment liberalisation.

In the specific context of regional trade integration, Canada's national interest is clear in the pursuance of the NAFTA. Initially left out of bilateral trade talks between the United States and

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<sup>30</sup>See [http://www.ftaa-alca.org/ftaadraft/eng/draft\\_e.asp](http://www.ftaa-alca.org/ftaadraft/eng/draft_e.asp)

Mexico, Canada sought entry into the negotiations not so much to gain access to the Mexican market, or even the wider hemisphere, but rather to protect its favoured economic relationship with the United States.<sup>31</sup> As Waverman would have it, NAFTA was generally cost-free for Canada because Mexico did not compete in key areas for the American market<sup>32</sup>; Canada, then, had the least to gain – at least in the short term – from a NAFTA agreement that included Mexico.<sup>33</sup> Furthermore, there was an emerging sense in Ottawa that the growing sentiment toward economic continentalism in the United States would undoubtedly create a similar motivation for hemispheric economic integration in Canada. It was anticipated that multilateral talks for a NAFTA could lead to a precedent concerning trade in services and tariff reductions in non-NAFTA countries.<sup>34</sup> In short, the Canadian dimension in the context of NAFTA talks was not completely hemispheric, but also contained a wider view of global trade relations.

At the time of the CUFTA negotiations, economic integration between Canada and the United States was characterized as a rejection of multilateralism,<sup>35</sup> and a more realist option for the two

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<sup>31</sup>Indeed, even Canada's pursuance of the Canada-US CUFTA was in the national economic interest, as fears spread in Canada about rising economic protectionism in the United States. See Gilbert Winham, "Why Canada Acted," in Diebold, Bilateralism, Multilateralism and Canada in US Trade Policy.

<sup>32</sup>Leonard Waverman, "The NAFTA Agreement: A Canadian Perspective," in Steven Globerman, ed., Assessing NAFTA, (Vancouver: The Fraser Institute, 1993).

<sup>33</sup>Gilbert Winham and Heather Grant, "NAFTA: An Overview," in Donald Barry, Mark Dickerson, and James Gaisford, Eds., Towards a North American Community? Canada, the United States, and Mexico, (Boulder: Westview Press, 1995).

<sup>34</sup>See, for instance, Murray Smith, "What is at Stake?" in Diebold, Bilateralism, Multilateralism and Canada in US Trade Policy.

<sup>35</sup>William Diebold, "The New Bilateralism?" in Diebold, Bilateralism, Multilateralism and Canada in US Trade Policy.

countries, faced with deeper trade integration in Europe and Asia. However, the CUFTA's quick modification to the NAFTA, as well as discussions about a wider western hemisphere FTAA that would envelope Central and South American economies suggests that a more comprehensive national economic interest (in both Canada and the United States) was in play. Some analysts have argued that Canada's "unenthusiastic" role in the NAFTA talks signaled a more general disinterest in the hemisphere.<sup>36</sup> While this point of view correctly identifies Canada's primary concerns that a series of hemispheric bilateral arrangements could undermine Canada's trading position with the United States, as well as the relatively limited economic interests Canada held in the region at that time, Canada has held a long-standing view that it can, and must, moderate the power of the United States by creating broader agreements of many players.<sup>37</sup> In this sense, then, the Canadian national interest concerning integration is not merely an issue of where Canada has economic relations, or how deep they are, but is also about institution-building, decision-making, and the input of smaller powers.

Importantly, Canada's experience in multilateral negotiations and institution-building brought dividends in the NAFTA agreement. In setting the framework for the CUFTA, Canada proposed – and secured – a binational dispute resolution council. Despite reservations coming from both the

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<sup>36</sup>Maxwell Cameron and Brian Tomlin, "Canada and Latin America in the Shadow of US Power: Toward an Expanding Hemispheric Agreement," in Barry, Dickerson, and Gaisford, Towards a North American Community?.

<sup>37</sup>A.D.P. Heeney, for instance, advised in 1966 that Canada's best alternative for dealing with the United States was to "quietly negotiate" with the US, rather than publicly embarrassing the Americans. See Heeney, "Dealing with Uncle Sam," in J. King Gordon, Canada's Role as a Middle Power, (Toronto: Canadian Institute of International Affairs, 1966).



United States and Mexican trade panelists, Canada managed to embed in the NAFTA a similar dispute resolution system.<sup>38</sup>

As Doern and Tomlin have argued, Canada's interest in a NAFTA was not simply ideologically-driven; rather, it was calculated to be in the broader economic interest of Canadians,<sup>39</sup> both in the short term, in the context of economic relations with the United States, as well as the longer-term issue of continental integration. Indeed, in Canada (as well as in Mexico), pre-existing concerns about being too closely tied to the United States economy were overstepped during the 1980s as both the Mulroney and Salinas governments came to accept an increasingly interdependent economic relationship with the United States,<sup>40</sup> but a relationship held in check through multilateral, rule-based mechanisms. The NAFTA, therefore, was not only in the national interest, it also preserved the national interest in future economic relations with the United States, as well as the hemisphere.

## **V. Conclusion: Canadian Economic Multilateralism: Dependent or Independent Policy?**

Contemporary observers of economic relations have suggested that we are currently in the midst of a new "revolution," one that will eventually replace the pattern and convictions of the age of industrialization and global production. Some of these analysts envision a global network of multiple

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<sup>38</sup>For more on this, see Gilbert Winham, "Dispute Settlement in NAFTA and the FTA," in Gliberman, Assessing NAFTA.

<sup>39</sup>Bruce Doern and Brian Tomlin, Faith and Fear: The Free Trade Story, (Toronto: Stoddart, 1991).

<sup>40</sup>Donald Barry, "The Road to NAFTA," in Barry, Dickerson, and Gaisford, Towards a North American Community?.

entities and sub-systems, based on individual loyalties and diverse fortunes; all of this, they warn, signals the end of the “national” economy, and perhaps the sovereignty of states.<sup>41</sup>

Although this could lead us to theorize that the integration of a network of global sub-systems might indicate the end of multilateralism, and the multilateral “tradition” in Canadian foreign economic relations, the opposite is quite likely more correct. As global trade becomes increasingly designated by regional arrangements overseen by global regimes (such as the NAFTA/FTAA regulated – to a degree – by the World Trade Organization), and structures such as innovation and communications become increasingly important in the determination of state power and influence, the Canadian national interest ingrained in multilateral economic relations will continue to grow.

Multilateralism forms the basis of what allows Canada to rise above the level of merely observer or largely passive participant status. In the Canadian experience, emphasis on multilateralism, in concert with its middle power status, permits Canada to have its objectives achieved in the international system, even without being a “great” power. (This is not to suggest, of course, that the relationship is symmetrical; rather, interdependence does not denote equality, but mutual interests.) Instead, multilateralism presents a functional means of achieving policy goals in Canada. In this sense, “functional” is not meant merely to suggest what a state may *contribute* to the international system, but rather how a state’s objectives are *attained* in the international system.

One of the most fundamental questions facing Canada is its ability to exert foreign policy initiatives in a relatively independent manner. Acting unilaterally is usually not an option, leaving the

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<sup>41</sup>See, for instance, Robert Reich, The Work of Nations, (New York: Alfred A. Knopf, 1991); Peter Drucker, Post-Capitalist Society, (New York: Harper Business, 1993).

alternatives of working with great powers bilaterally, or through a multilateral regime. The element of *independence* here is crucial: that is to say, it is not merely a matter of establishing a foreign policy position, but rather the ability to do so in an autonomous manner.

It has become axiomatic to suggest that there is a historical commitment to multilateralism in Canadian foreign policy. For substantive foreign policy analysis, however, the more critical issue concerns the causes for this multilateral commitment. This paper has argued that the conduct of Canadian multilateralism has led to some independence in, and protection of, its economic interests in the Americas. This latitude in economic relations, it has been contended, would not otherwise have been realized without the benefit of organizational links established through multilateral behaviour.