***FTAA: Let's take it easy***

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Given all the sound and fury, one would never know it, but there is precious little at stake for Canada or Canadians in the Quebec Summit or in the Free Trade Area of the Americas. Canada has little to gain from an FTAA and in fact, even free traders should worry about the potential consequences of such an agreement.

The real game is about access to the US market for Latin America and the Caribbean, and the conditions to be met and price to be paid for these countries to gain it. For more than ten years, Canada has had such access to the US market. As for the price we paid in sovereignty, control over national resources, social programs and economic restructuring, if it hasn't been paid already, the FTAA will not change it.

Why the fuss then? How is it that from its inception at the1994 Miami Summit, Canada has been the strongest promoter of an FTAA from Alaska to Tierra del Fuego? Three main reasons are usually given: the Americas are our only home; trade liberalization is good for us and for the world and we must advance it everywhere we can; and finally, an FTAA would help diversify our trade away from the United States, which now engulfs 88per cent of our exports.

The problem is, none of these reasons holds much water.

Let's start with the "home" issue. Beyond NAFTA, our exports to Latin America have been stuck at less than 2 per cent of Canada's total for more than ten years. Offshore paradises aside, our investments in the region, at 6 per cent of Canada's global stock, are less important, in relative terms, than they were in 1970. In fact, the book value of Canadian investments in the Bahamas, Barbados, and Bermudas (C$31 billion) is more than twice as large as in Brazil, Chile and Mexico taken together (C$13 billion). The reason is straightforward: the Canadian economy is part of an integrated North-American unit in which trade, investment flows and industrial structures are tightly woven together. This is where 90 per cent of exports go, wherefrom 70 per cent of our imports come, and where more than 50 per cent of Canadian investments are concentrated. That integrated unit does not expand beyond Mexico's southern border, and there is no reason to think that it will in the foreseeable future. Canada's home, for better or worse, is North America, not the whole hemisphere.

The two other motives, trade liberalization and market diversification, are intertwined. The problem is, an FTAA might help neither. Such an agreement could in fact damage long term prospects for both. Three key issues are at stake.

The first is that Latin America and the Caribbean are reeling. The political regimes and economies of the region have been made fragile by the inability of most governments to deal with the impact of the economic adjustment of the last decade. Most countries of the region have been liberalizing unilaterally for years now, with massive impacts on the industrial structure (not all negative), on the distribution of wealth (all negative), and on sheer poverty (mostly negative). In its likely form, an FTAA would impose still further adjustments on a continent that simply cannot take, politically and socially, if not economically, much more liberalization. For canadian exporters, in other words, the deal could kill the goose.

The second one has to do with the global context in which this hemispheric bloc would emerge. There are rumblings of trade fortresses building in the world. US-EU trade relations are not good and they will likely get much worse once the truce over agriculture is over in 2003 and serious discussions begin again on subsidies, not to mention genetically modified organisms. For the first time ever, there are real prospects for an Asian bloc emerging, complete with it own monetary fund and with support from the three regional giants, China, Japan and South Korea. In that context, a fortress America might sound good for Canada, but remember, we already have free access to more than 80 per cent of the GDP of the region and all our hopes for global trade expansion and export diversification would be destroyed in the process. The Bush administration's cool approach to multilateralism, as demonstrated on the Kyoto file, and our current softwood and potato travails should make us think twice before going further along the hemispheric bloc route.

The third issue runs even deeper: it is becoming increasingly clear that current and future trade regimes will need to be sold to the electorates of the countries affected. They just will not fly without significant popular support. Political sustainability, in other words, will be critical, and that is relatively new. Beyond the demonstrations and Summit-hopping activist networks lies growing discomfort with trade liberalization per se, and with the processes through which it is being implemented. The juggernaut metaphor is backfiring: people cannot accept that something they are utterly unable to control could ever bring about much good. Governments and advocates of free trade will have to demonstrate that the legal and institutional instruments they are developing provide a degree of control for national government and the populations affected. This problem starts in the United States, where any government interested in free trade must explain to an increasingly edgy electorate how further liberalization will bring anything positive, particularly in the face of an economic slowdown and a trade deficit bordering U$500bn (i.e. about ¾ the size of Canada's GDP). The same holds, to the umpteenth degree, for Latin American countries, where years of adjustment have yet to deliver the promised goods. Without a public buy-in, implementation of these agreements will meet with strong resistance and, in turn, create political pressure that no politician will be able to dismiss or ignore. To insist on legal commitments will not be enough: transparency is needed now, and compromises will likely be needed shortly after.

Given these problems, it should be clear that Canada needs to take a new tack. The fact that it has little at stake comes in handy, for it brings freedom of action. We cannot stop the process, just as we can not legitimately lead it, precisely because it impacts so little on us. Still, this leaves much room for action. To begin with, we could continue, and increase, our work with the small economies of the region, which have the most at stake, yet are the least equipped to deal with the potential impacts. More broadly, given its stake in a sustainable, rules-based trade regime, Canada should focus on the political sustainability of current and future agreements, opening up the various processes in which it is involved and working at rules that can gather long term political support.

Finally, in the Americas, Brazil should be the priority. As President Bush was recently reminded by the Council on Foreign Relations, Brazil's economy is almost the size of China's, it is the size of India's and bigger than Russia's. Its political system is sound and its economy is an anchor of stability in the region. From Canada's standpoint, it represents half of the new market that an FTAA would open, and with its Mercosur partners, three quarters of it. Yet, between Bombardier and mad cows, our relationship with Brazil is at a historic low. An FTAA will not take it higher.

So, let's brush up our Portuguese and take it easy on the FTAA.