

Report No. 22

**SMALL AND BIG PLAYERS IN REGIONAL
TRADING BLOCS: CANADA'S
EXPERIENCE WITH NAFTA**

Centre for Policy Dialogue

House No 40/C, Road No 11, Dhanmondi, Gpo Box 2129 , Dhaka-1205, Bangladesh

Tel: 8317055, 8318790; Fax: 8315701; E-mail: cpd@bdonline.com

April, 2000

The Centre for Policy Dialogue (CPD), established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together ministers, opposition front benchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.

In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include **The Independent Review of Bangladesh's Development (IRBD), Governance and Development, Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System and Leadership Programme for the Youth**. The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.

As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of the dialogue held at Hotel Sheraton, Dhaka on April 5, 2000 on the theme of **Small and Big Players in Regional Trading Blocs: Canada's Experience with NAFTA**.

Rapporteurs: *Mr Rashed A M Titumir*, Fellow; *Ms Moushumi Rahman* and *Mr Saifur Rahman*, Research Associates, CPD.

Assistant Editor: *Ms Ayeshah Banu*, Coordinator (Dialogue & Communication), CPD.

Editorial Advisor: *Mr Syed Badrul Ahsan*

Series Editor: *Professor Rehman Sobhan*, Chairman, CPD.

Dialogue On
Small and Big Players in Regional Trading Blocs:
Canada's Experience with NAFTA

i) The Dialogue

The Centre for Policy Dialogue (CPD) and the Centre for Trade Policy and Law (CTPL), Carlton University, Ottawa is currently implementing a collaborative programme on *Trade Policy Analysis: Bangladesh Monitoring the Impact of WTO*. As part of this programme, the CPD hosted a dialogue on the overall theme, *Small and Big Players in Regional Trading Blocs: Canada's Experience with NAFTA* (North America Free Trade Area) in Dhaka on 5 April 2000. The keynote paper, presented by Mr. Dennis Browne, Director, Centre for Trade Policy and Law, drew attention to the Canadian experience in NAFTA with a viewing to throwing light on the possibilities as well as efficacies of similar experience among member-states of the South Asian Association for Regional Cooperation (SAARC).

The dialogue was set into motion through the presentation of an outline of the collaborative CPD-CTPL programme by Dr. Debapriya Bhattacharya, Executive Director, CPD. It was pointed out by the CPD Executive Director that the objective of the programme was essentially research and a provision of policy inputs to the government of Bangladesh in light of the gathering trend toward globalisation and developments within the World Trade Organisation itself. Obviously, the changing global trade regimes had important implications in terms of future economic performance of countries such as Bangladesh.

Moderated by Professor Rehman Sobhan, Chairman, Centre for Policy Dialogue, the discussion was made notable by the presence of Bangladesh's Minister for Commerce, Mr. Abdul Jalil, MP. As part of the plan to facilitate discussions on the issue under consideration at the dialogue, a background paper entitled, *Small and Big Players in Regional Trading Blocs: Canada's Experience with NAFTA*, and prepared by Mr. Dennis Browne, was circulated among the participants. Among those taking part in the dialogue were policy makers, political leaders, academics and members of civil society.

ii) Keynote Presentation

The keynote paper presented by Mr. Dennis Browne drew attention to the prevailing state of affairs within NAFTA. In this connection, the speaker referred to certain key issues and developments which have characterised the working of the organisation. An important point the keynote speaker made was his intention to go for an analysis of NAFTA as also the state of bilateral Canada-United States trade agreements. Mr. Browne's arguments zeroed in on three factors. In the first place, he dwelt on the promises held forth by the US-Canada Free Trade Agreements (FTA); in the second, he analysed the reality as it had shaped up as a result of FTA; and, in the third, he reviewed the manner in which Canada had tackled the difficulties arising out of the implementation of FTA. It was pointed out by the speaker, though, that a number of the reservations sections of Canadians maintained about FTA had largely turned out to be myths.

Controversy vis-à-vis NAFTA and its Emergence

A principal difficulty which was evident at the initial stages of the US-Canadian negotiations over NAFTA was the concern raised by Canadians about the overall impact of the body on Canadian trade and business interests. There was, as Mr. Browne pointed out, surely a reason for that, since it was felt that the greater magnitude of the United States, in relation to its northern neighbour, in terms of population and the size of the economy, could come in the way of a proper collaborative effort between Washington and Ottawa. There was too the apprehension that the cultural dominance of the United States in Canada would preclude any move by Canada to have its economy operate on a level equal to that of the United States. Even so, as the keynote speaker asserted, Canada recognised the opportunity that NAFTA offered it. It did acknowledge the idea that NAFTA was a very reassuring means of Ottawa getting secure and sure access to the US and, subsequently, Mexican markets.

The observance of the fifth anniversary of NAFTA as a regional trading bloc, coupled with the tenth anniversary of the US-Canada Bilateral Trade Agreement in 1999 served as an opportunity for stock-taking in Canada. Emphasising the need to understand the objective behind the economic links between the two countries, the CTPL Director informed the participants at the dialogue that one way of initiating the discussion was to deal with the question of why Canada had negotiated a Free Trade Agreement with its southern neighbour and then followed it up through expanding the whole idea into NAFTA. The one vital point that could not be lost sight of was that the initiative for NAFTA as well as FTA came from the Canadian side. Mr. Browne explained that an important consideration behind the Canadian move was the growing belief in Ottawa that secure access for Canada in the US market was being increasingly hampered by a variety of trade-related actions in the US. He made particular reference to anti-dumping duties, subsidies, countervailing duties and emergency trade actions on the part of the United States, all of which was geared to safeguarding the US market. The goal, in the aftermath of that realisation, was for Canada to transform itself from being a good neighbour to being a legal trading partner in order to be able to address the issues attendant on US-Canada trade ties. A significant consideration which came in was the need for the country, home to thirty million people populating a vast territorial region, to move beyond the narrow confines of its domestic market. But Canada needed to make sure at the same time that it was in a position to guarantee its investors entry into the US market. Hence the question of a secure market for Canadian goods in the United States.

In conditions such as those described above, according to the keynote speaker, the question of a legal agreement on trade between Washington and Ottawa took on importance. For the Americans, the important need was the reassurance of access to Canada's energy resources in times of global shortages. That of course posed little problem as Canada was well endowed with natural resources. In precise mathematical terms, Canada was home to a hundred and fifty years of proven supply of natural gas and oil reserves. It possessed uranium, coal and hydro power. As a sign of what Canada could hold up as a bargaining chip in negotiations with the US, Mr. Browne took care to mention, during the OPEC crisis of the seventies Ottawa briefly suspended the supply of natural resources to Washington. That of course disturbed sensibilities among the Americans, but for the Canadians it proved to be a pointer to the future. More important than purely national considerations, however, were the cooperative diplomatic relations between the two countries, a fact which was instrumental in persuading the Americans to negotiate with Canada over trade. The bilateral deal between Canada and the US

subsequently persuaded President George Bush that a similar deal between his country and Mexico was a feasible proposition. Naturally enough, the US overture to Mexico was perceived by Canada as a move towards attracting possible American investment away from it and to Mexico. The upshot of the entire idea on North American trade was the new suggestion by Canada that a tripartite deal involving Ottawa, Washington and Mexico City be hammered out. In 1995, NAFTA took over, having supplanted the bilateral FTA. Mr. Browne, however, took care to mention that in real terms, FTA continued to operate. It was only that NAFTA was now the major player on the trade scene.

Outcomes of NAFTA

Job Losses?

One of the results of the creation of FTA was obviously job-oriented. In the ten years in which FTA has operated, the Director of CTPL pointed out, there has been a net gain of 1.2 million jobs in the non-agricultural sectors. In other words, the figure rose to 13.6 million in 1997 from 12.4 million in 1988. In the US, the gains from FTA were visible through the generation of 14 million new jobs in the same period. Mr. Browne disagreed, however, with the suggestion that job losses marked FTA in 1989, claiming instead that the job losses were the result of recession rather than the working of FTA.

Lower Wages?

The CTPL Director put forth the idea that average weekly wages in Canada's non-agricultural sector rose from \$469 a week in 1988 to \$568 a week in 1996. That meant a jump in the hourly wages index from 107.7 to 142.1. The bottomline was simple: under FTA, there was a rise in the number of jobs as well as wages, contrary to what the sceptics had been putting out.

Destruction of Manufacturing base?

Dispelling the notion that one effect of FTA would be a destruction of the domestic manufacturing base, Mr. Browne argued that although the share of manufacturing in GDP declined from 19.2 per cent in 1988 to 17.3 per cent in 1996 and the share of manufacturing employment fell from 17.9 per cent to 15.8 per cent in the same period, this could hardly be referred to as a destruction of the domestic base. He wondered if a movement of workers from assembly lines to a knowledge-based economy could at all be defined as a negative factor in production or as an indication of modernisation.

Free Trade vis-à-vis Canadian Agriculture

Referring to pre-NAFTA fears that free trade would negatively affect Canadian agriculture, Mr. Browne informed the participants at the dialogue that NAFTA was only concerned with a bit of tinkering around on the periphery of trade issues. The broader aspects of global trade, or Canada's links with other economies, he pointed out, were left to be addressed by the Uruguay Round, the WTO and other relevant institutions. Canada's trade ties with Mexico were not undermining its agriculture but were in fact leading to an expansion of Ottawa's market in that country. For added emphasis, Browne pointed to the expansion of two-

way trade in processed food between the US and Canada. For Canada, the agri-food sector accounted for 6 and 5 per cent respectively of its exports and imports. In pure monetary terms, Canada earned US \$55 million a day.

NAFTA Undermines Food and Health Safety?

The CTPL Director punctured the argument that being part of NAFTA undermined Canada's food safety and also tampered with its health regulations. It was standard procedure, as he noted, for governments to set their own food safety regulations in place as long as they were founded on scientific grounds. They were in no way to be considered as disguised barriers to trade. Indeed, it was NAFTA's goal to have governments in its member-states harmonise safety and health standards.

Dealing with Trade Action by Washington

Dennis Browne brushed aside the suggestion that NAFTA could end up weakening Canada's defences against politically motivated trade actions by Washington. NAFTA, he argued, was a mechanism geared to promoting the rule of law, as opposed to the rule of might, in trade relations in North America. In specific terms, all NAFTA-related activities were based on firmly rooted rules of business through which member-states agreed to conduct their relations on properly accepted standards of behaviour.

Loss of National Sovereignty

A remarkable result of NAFTA has been the restrictions it imposed on individual governments with a view to preventing them from interfering with the rules of the market. At the same time, NAFTA clearly has been opposed to demands for the protection of entrenched commercial interests since they would by circumstance and nature be damaging to the long-term interests of individual countries. The Canadian government had, therefore, taken pains to ensure that it did not impose unnecessary trade or administrative barriers to regional trade, and for the very good reason that resisting such temptation would result in Canadians being better off economically as people sharing a trade region with Americans and Mexicans. The traditional role of trade deals, Browne reminded his audience, was to restrict the limitless authority of governments in deciding market policy.

Under the ambit of both NAFTA and FTA, Canada agreed not only to refrain from undertaking negative obligations but also to uphold positive obligations in its relations with the other member-states of the two organisations. The positive obligations were specifically those relating to the recognition and enforcement of intellectual property rights, laws relating to labour and the environment, et al. Where the issue was one of sovereignty, or a loss of it, Mr. Browne noted that in trade negotiations there was hardly any scope for winners and losers. So had NAFTA produced a win-win situation? Dennis Browne thought it had.

NAFTA's Effectiveness

A noteworthy achievement of NAFTA has been its ability to facilitate the process of integration across borders. Production-desegregation, noted Browne, permitted a working of new technologies which process in turn allowed firms to have the varied parts of their

production processes placed in locations equipped to yield the best results. The Canadian assessment of NAFTA is that at the time it was devised, it was the best arrangement the country could come to with its neighbours to the south. The economic realities arising out of the NAFTA deal speak for themselves. Between 1993-98, there was steady growth in trade between Canada and the United States. In statistical terms, trade increased from Canadian \$265 billion to \$475 billion. Ottawa's exports to Washington went up by 80 per cent, while at the same time US exports to Canada registered a rise by 78 per cent.

In the matter of trade between Canada and Mexico, Mr. Browne made the observation that trade jumped, in the same period, from \$4.5 billion to \$9 billion. While Canada's exports to Mexico amounted to 65 per cent, those of Mexico to Canada shot up to 105 per cent. In the matter of investment among the three countries of NAFTA, similar rising figures had been perceptible. In the period under review, said Browne, Canadian investment in the US took a leap from nearly \$68 billion to over \$126 billion, a jump of 185 per cent. In turn, American investment in Canada rose from \$91 billion to over \$147 billion, a jump by 160 per cent. With Mexico, Canadian investment rose from \$530 million to \$2.3 billion, representing a leap of 434 per cent. Mexican investments in Canada went up from \$154 million to \$464 million, a rise of over 300 per cent.

Dennis Browne's considered opinion was that the principal, if not the sole, objective of a regional free trade agreement was to allow countries within the trading region to do what they did best individually. In effect, each country was expected to generate optimal wealth through an optimal use of resources. For Canadians, the one significant lesson emerging from the NAFTA experience has been the encouragement it has injected into such crucial areas as economic specialisation, economic growth and welfare promotion in all the three member-countries of the organisation. In the broad sense, Canada, the United States and Mexico have all benefited from the cooperative trade policies they have pursued through the operations of NAFTA, stated the CTPL Director.

Canada Tackles Difficulties

The conclusions drawn in the keynote paper centred around the general impact of FTA on the economy of North America. Mr. Browne referred to the fact that Canada and the United States were partners in the largest trading partnership in the world where as much as 95 per cent of the trade was free of friction and irritances. Even so, disputes were sometimes inevitable, but the mechanism for resolving disputes was inherent in FTA. The keynote speaker underlined the significance of the rule of law in trade relations between countries and stressed the fact that Canada was committed as a matter of both principle and policy to NAFTA, the World Trade Organisation, APEC and FTA. Good negotiations, as Browne noted, produced nothing but winners all round. Regarding the dispute resolution procedure, the speaker stated that when some issues went all the way to the panel process, they were generally handled expeditiously and within the time frame set in place by NAFTA. Between the US and Canada, said Browne, there had been only four disputes within NAFTA; while under the bilateral FTA, the number of disagreements amounted to six. Canada had not encountered any bilateral dispute with Mexico within NAFTA. He added, though, that at one point the Mexican and Canadian governments had jointly lodged a complaint against the US on the Helms-Burton law. But the complaint did not proceed beyond the stage of initial consultations. In the Mexico-US

sector, the Mexicans filed eight legal complaints against the Americans. On its part, the US brought two cases against Mexico. The upshot of it all, as the keynote speaker was quick to point out, was that the three member-states of NAFTA as well as the two partners in FTA had been able, in very broad measure, to meet their obligations under the terms of the deals they had signed up to.

NAFTA, in the view of the keynote speaker, was patently one of the more successful of regional free trade arrangements owing to the emphasis it had placed on such crucially sensitive areas as trade services, intellectual property rights and investment. More importantly, NAFTA reinforced in a clear way certain business patterns which had already been emerging before North America went for a deal among its constituent nations.

iii) The Discussion

At the end of the presentation by Mr. Dennis Browne, the Chairman of CPD, Professor Rehman Sobhan proceeded to offer his comments on the issues raised in the keynote paper. The CPD Chairman underscored the significance of the subjects raised in the paper and suggested that the dialogue would go for an analytical observation of those subjects. This was especially so in view of Bangladesh's active participation in the process of globalisation and the strategic position it had been trying to develop for itself within the World Trade Organisation. Bangladesh, said Prof. Sobhan, needed to be ready, professionally and politically, to be part of the emerging new global environment. The country was in uncharted territory, one that was characterised by an asymmetry of knowledge and power, which facts necessitated its interaction with international organisations more conversant with the process of global negotiations. Against such a backdrop, noted Sobhan, the CPD had been developing ties with organisations such as the CTPL, which had a considerable degree of exposure to such sensitive and complicated factors as the operations of multilateral and regional trade negotiations. Insofar as the Browne paper was concerned, the CPD Chairman pointed out that the Canadian experience in NAFTA as well as in other trade arrangements would be educative not merely for his organisation but for Bangladesh as a whole.

The CPD Chairman was of the opinion that the discussions generated by the keynote paper would prove beneficial in terms of providing inputs in the identification of strategic issues by Bangladesh as it prepared for post-Seattle trade negotiations. Professor Sobhan invited the business community to play an active role in the overall process of globalisation as they were the major players in the trade scene emergent in the post-Seattle period.

Migration of Labour

Participating in the debate Dr. Muinul Islam, Director General of BIBM, expressed the opinion that Mr. Dennis Browne in his keynote paper could have made a reference to the issue of movement of labour or the natural movement of people through the NAFTA region. Dr. Islam specifically wished to come by more information relating to the movement of people between the United States and Mexico, especially from the former to the latter. Browne's response to the suggestion was that such movement was marginal. He added, however, that there were a number of illegal residents in the United States from both Canada and Mexico. While Canadians had little problem blending in with the American population, the visibility of Mexicans as an ethnic minority was noticeable. Under NAFTA visa categories, said Browne,

the movement of people was facilitated among the three countries, though it had to be admitted that there were limitations in respect of the categories. While visa regulations were fairly light for certain classes of people including senior managers, people linked to investment, specialists, et al, the procedure yet remained fairly rigorous for the general labour class.

Prof. Rehman Sobhan intervened to suggest that there was a strong relevance for intellectual investment in working out both the implications of and the appropriate legal regime to govern a free flow of labour across borders. This was so owing to the fact that conceptually it had been established that a free flow of capital as well as commodities were imperative for a meaningful outcome of any free trade agreement. Unfortunately, such mechanisms were yet to be worked out in most trade agreements of an advanced nature.

In response, Mr. Browne pointed to the delicate political and social issues involved. Browne then turned to a query from Mr. M. Syeduzzaman on the issue of whether any special provisions were in place relating to the movement of transport in the NAFTA region. Browne informed the participants at the dialogue that a single inspection agency was in operation for vehicles crossing frontiers with a view to making things easier for everyone through a single inspection of vehicles. However, while there was no difficulty regarding movement of traffic between the US and Canada, and while Canadian vehicles could go right through Mexico, difficulties did exist with respect to vehicular passage between the US and Mexico. The Americans, he informed the audience, were yet to open their frontiers to Mexican vehicular transport. The Canadian High Commissioner to Bangladesh, Mr. David Preston, noted at this point the establishment of a cement factory near Sylhet, clinker for which was being imported from India. Much the same system was at work in the trade arrangements between Washington and Ottawa, he stated. Mahbubur Rahman, President of the International Chamber of Commerce, Bangladesh Chapter, appreciated the point made by the Canadian envoy. He regretted, though, the many proposals in trade terms which had gone to waste over time.

Free Trade in South Asia

Drawing attention to another aspect of the discussion, Mahbubur Rahman expressed his scepticism about the success of SAPTA in terms of a comparison with NAFTA. It took, noted Rahman with dismay, a decade for the nations of South Asia to strike a deal on SAPTA. The bigger truth, however, was that SAPTA remained to be implemented. He cited the recent Indian decision to impose a unilateral tariff on exportables from Bangladesh to India, a clear instance, said he, of a violation of the SAPTA spirit. Mr. Dennis Browne made note of the absence of any effective dispute settlement mechanism within the SAPTA structure.

Taking part in the discussion, Salman F. Rahman, former President of the Federation of Bangladesh Chambers of Commerce and Industry, observed that an atmosphere of free trade in South Asia would certainly be beneficial for the countries of the region. He then added that while Canada and Mexico stood to gain from a win-win situation in NAFTA, it remained a matter of inquiry as to what extent the United States derived any benefit from it. Browne's response focused on the fact of thirty million Canadians gaining access to a market of three hundred and thirty million people; Canada's producers thus found access to a market ten or eleven times bigger than before. Where the Americans were concerned, their producers were exposed, thanks to NAFTA, to a market widened by ten per cent over what it had been earlier.

The true motivation in global trade, suggested Mr. Browne, was to come by imports, or goods a country could not produce domestically. The gain for Americans out of NAFTA, he said, was investment opportunities which were more secure than they used to be. The US, he added by way of emphasising his point, imported commodities at costs lower than the cost it would have incurred in producing them on its own.

Investment Relocation

Amir Khosru Chowdhury, MP, Chairman of Chittagong Stock Exchange, observed that while it was natural for the US and Canada, as friendly neighbouring countries, to have a compatible working trading relationship, it was rather difficult comprehending the compatibility of Mexico with Canada and the United States in terms of investment relocation. Referring to the circumstances characterising economic relations between India and Bangladesh, he argued that there was not enough factor mobility among the countries of South Asia in comparison to what was in practice in North America. Mr. Chowdhury was not sure if the kind of mechanism NAFTA had put in place in its own sphere could be replicated in South Asia.

The Browne response was to remind the participants that contrary to common belief, Mexico had been a beneficiary of NAFTA. As a result of the deal, Mexico was attracting much high-tech while at the same time coming by low-paid job opportunities for its people owing to increased investment flows into the country. Besides, Mexico was deriving considerable advantage from its free trade agreement with the European Union as well as with the rest of the southern hemisphere. He suggested that the Mexican experience could be replicated in Bangladesh through an accommodation of contextual realities. Where the weaknesses of SAPTA are the issue, Mr. Browne was of the opinion that countries could benefit from trade agreements through creating level playing fields where all operations would be guided by well-defined rules and regulations. Browne took a swipe at GATT, saying that the organisation had represented a system which had always been discriminatory towards developing nations.

Income Convergence

Coming into the discussion, Dr. Zaidi Sattar, an economist at the World Bank regional office in Dhaka, noted that where there was trade between low and high income countries, there was inevitably income convergence that was much greater than trade arrangements between low income countries. Was there any evidence of income convergence between Canada and the United States? As regards income convergence, Mr. Browne pointed out a difference in attitude between Americans and Canadians. Canadians, he suggested, believed in averaging their income while Americans tended to allow divergence. Accordingly, Canadians tended to strive for a higher minimum wage. He, however, informed the participants that there had been a significant decline in the Canadian dollar vis-à-vis the American dollar since the conclusion of the bilateral trade agreement, signifying the adjustment that required to be done at business as well as monetary levels. Although the rate of growth in Canada was low compared to that in the US, he mentioned that increased productivity growth had been observed more in areas which had been liberalised under the agreement than those areas which had already been liberalised.

Browne stated that the unionised areas of the industrial sector had near income parity in the pre-NAFTA period. He said that Canada's income in real terms dropped in relation to the

US because the currency of the latter was fifty per cent stronger than that of the former. He considered that a similar process which went in a vein similar to specialisation. Browne cited the tremendous growth witnessed in the pork sector thanks to specialisation brought in by the removal of railroad subsidies under NAFTA and WTO. In response to another query regarding the factors pertaining to specialisation in the case of the US and Canada, with both having similar endowments, from Zaidi Sattar, Mr. Dennis Browne said that it all depended on which country entertained the idea first. As an instance, he cited the fact of Canada's becoming the leading nation in fuel-sale technology among North American countries.

Acceleration of Growth

M. Syeduzzaman inquired at that point about the extent to which growth could be related to the unprecedented expansion of the US economy in the 1990s. Was the buoyancy of the US economy a major factor in the equation? Drawing attention to the correlation between the huge growth of the US economy and the expansion of American trade with Canada and Mexico, Browne thought that there was some positive correlation. He was of the view that these economies would have realigned their relationship as a result of trade agreements and that relationship would have grown in any event. Even so, the rate of growth was tied in a big way to the enormous prosperity of the US market. To the question of whether trade agreements stimulated trade, Dennis Browne that there had not been much trade between Canada and Mexico before NAFTA. On the inflow of investment, Browne's opinion was that the United Kingdom was the second major investor in Canada after the US and the Japanese had invested quite heavily in the automobile sector in the NAFTA countries.

Harmonisation of External Tariffs

M. Syeduzzaman inquired into the nature of harmonisation of external tariffs which existed in the NAFTA states, specifically on whether Browne considered it an important factor in the growth of trade and investment. Mr. Browne's belief was that there had been no harmonisation in external tariff. That, according to him, was a fundamental difference between free trade agreement and customs union. His opinion was that free trade agreements did not harmonise external tariff. He, however, mentioned that there was a view in Canada that the country should unilaterally harmonise tariffs with the US and subsequently seek to extract an agreement from the US providing that the rules of origin would not apply to any product where the tariff had been harmonised to zero.

Inclusion of Labour Standard and Environmental Issues

Mr. A.S.M. Quasem, President of Bangladesh Employers' Association, thought that labour standards and the environment, two of the major new issues put forward under the aegis of the WTO, were coming in the way of developing countries' attaining their full potential for growth. He desired to know whether labour and environmental standards posed any problem in the facilitation of trade under NAFTA, particularly for Mexico. The CTPL Director informed him that there had been agreements on the side on labour and the environment since the original NAFTA deal had been concluded. Labour-related legislation in Mexico was of a quality equal to those of the United States and Canada. Terming the legislation as pretty soft, Browne added that the side agreements simply asked each government to enforce its own legislation; and if it failed to do the same, then individuals, companies and NGOs would lodge

complaints with the commissions on labour and the environment, who in turn would take action subject to an inquiry. Mr. Browne referred, in this connection, to Canada's firm position with regard to the agreement on labour and the environment. The Canadian stand was that if a case were brought against the country alleging a non-enforcement of laws to the detriment of its trade partners, then Canada would be willing to go for a financial settlement of the issue. As regards the US and Mexico, Mr. Browne believed that there were some possibilities of trade sanctions but those had not been applied yet. He opined that issues related to labour standards and the environment were considerably dependent on which party held political power, particularly in the United States, where Democrats and Republicans held divergent views towards the issues.

Shortcomings of NAFTA

Rules of Origin in NAFTA

Dr. Mustafa Abid Khan of the Bangladesh Tariff Commission thought that a replication of the NAFTA experience in the South Asian context would come up against complexities associated with the rules of origin. In the SAPTA agreement, as he put it, the rules of origin needed to be simplified in order to facilitate better implementation of the deal. Mr. Browne, in his response, warned against employing the rules of origin of NAFTA in the South Asian climate.

Status of Unskilled Labour in NAFTA

DR. K.A.S. Murshid, Research Director, Bangladesh Institute of Development Studies, noted that while most studies on NAFTA indicate that net job creation had been positive in all three member-states, they also showed an adverse impact on unskilled labour. Indeed, a good degree of tension and polarisation had been generated in the area of unskilled labour. He thought that if the problem was not handled in a proper way, it could result in a huge backlash. He made note of the absence of issues such as inequalities of marginalised groups in the keynote paper.

Agreeing with Dr. Murshid's observation, Mr. Browne opined that it was always the least efficient or least skilled which suffered the most through an opening up of markets geared to increased competition. He said that such is what happened in Canada and the United States and as such there was an increasing gap in wages between the top and bottom layers of society in those countries.

Service and IT Sectors

Syed Humayun Kabir, former President of the Metropolitan Chamber of Commerce and Industry, wanted to know why the keynote speaker had failed to focus on the services sector or whether the services sector had not been incorporated in NAFTA. Kabir said he had expected a discussion on the IT sector as well. Dennis Browne, while acknowledging the omission, said that indeed a chapter had been included in NAFTA on the services sector. He also mentioned that the chapter in question formed the basis for the services sector in the World Trade Organisation.

Relevance of NAFTA Experience in the South Asian Context

Constraints and Policy Measures

The Pro-Vice Chancellor of North-South University, Professor Hafiz G.A. Siddiqui, expressed his belief that the success of NAFTA owed itself to the long history of cooperation among the member-nations of the organisation. Even before the formalisation of the body, he pointed out, the export and import trade between Washington and Ottawa had been considerable. He believed that NAFTA was essentially a formalisation of what had long existed. He pointed out, though, that there did not exist the kind of wage differentials which could motivate India into establishing assembly plants along its borders with Bangladesh. India had a very good market for its goods in Bangladesh and therefore it was not desirable from the Indian perspective to set up new factories in Bangladesh. Professor Siddiqui did not spot possibilities for that kind of development in South Asia. However, he did believe that Dhaka would certainly derive benefits from Delhi's readiness to establish joint venture companies or one hundred per cent Indian-owned companies.

Mr. Browne pointed out to Prof. Siddiqui that the Canadian and India-Bangladesh cases were quite dissimilar. The reason why NAFTA had been successful was that it reinforced what had already been taking place. It was his experience, he said, that there were strong political reasons to proceed towards such deals. He was also of the view that there was enormous potential gain for small countries in the region from any common economic endeavour. In response to the issue of why India would be agreeable to such an agreement, the keynote speaker mentioned that in the North American case, the Americans had not been interested in such agreements in the beginning. At the same time, however, the US wanted access to the rich resource base of the region and it was this desire which led in time to the FTA. He suggested that Bangladesh too needed to identify India's need, which it would be able to meet. Such identification would assist in attracting Indian business interests to the Bangladesh market.

Lessons from NAFTA

Bangladesh's Minister for Commerce, Mr. Abdul Jalil, taking part in the deliberations, was of the opinion that although SAPTA had been established to inaugurate and accelerate the process of economic cooperation among SAARC member-countries, the fact remained that owing to negative political conditions the deal had become unworkable. He mentioned that at a recent meeting, he had proposed to his Indian counterpart that Delhi initiate a kind of agreement which India and Sri Lanka had earlier contracted to. Stating that bilateral trade agreements among the SAARC nations could be of great help to the region, the Minister noted that such moves could revive SAPTA. Noting that it was always difficult to play with a big partner, Mr. Jalil thought that Bangladesh could absorb lessons from the NAFTA experience in this regard. He requested researchers as well as research organisations working on the pattern of the CPD to come forth with innovative proposals in light of the NAFTA factor.

Making an intervention, Dr. Murshid thought that parts of India, notably the north-eastern region of the country, would seem to be a natural hinterland for Bangladesh. He stressed the fact that India needed to realise the potential, and bearing such factors in mind needed to go for a change in attitude.

Bangladesh in NAFTA

Making a point in the dialogue, Professor Rehman Sobhan suggested to the Honourable Minister for Commerce that he direct serious thought to the possibility of Bangladesh's applying for membership in NAFTA. It was not, he stated, a frivolous remark since North America happened to be Bangladesh's largest export market. In fact, if facilities were extended to Dhaka by way of access to free trade, it would experience a huge expansion of its exports in the next five years. He thought the proposition was not as bizarre as it might sound. Sobhan suggested that the Minister invite the US ambassador to Bangladesh, Mr. John C. Holzman, to take this proposition forward for consideration by the American authorities.

Lack of Skill in Trade Negotiations

Noting that Indians were adept at negotiations on trade issues, Mr. Browne told the dialogue participants that Bangladesh needed to do a lot of homework before getting down to negotiations with India. It was imperative, he suggested, that the smaller player be possessed of acute and great trade negotiation skills in conditions of competition with a bigger player. The bottomline for Bangladesh, he pointed out, was for its trade negotiators to acquire greater trade negotiating skills. Proper training, he said, should be facilitated for such purposes. In this connection, he hoped to reach some agreements with the CPD with a view to bringing in skilled trade negotiation training personnel to Bangladesh. Such trainers could transfer to Bangladesh the skills Canada had acquired over a fifty-year period of experience.

What Should Bangladesh Do?

Professor Rehman Sobhan informed the participants at the dialogue that a country like Bangladesh had formally liberalised its import regime under World Bank-sponsored structural adjustment arrangements well ahead of India. Noting that the country had poor control over its borders, he said that it was immaterial whether Bangladesh went for a free trade or preferential trade agreement. All that was required for a smaller player on the regional trade scene was some benefit from a trade agreement where there has been a unilateral agreement in operation. Bangladesh had always sought free trade access to India, said Sobhan, adding by the year 2005 the country will automatically full access to the Indian market. Referring to the heads of government-level commitment to the establishment of a free trade area in the region, Professor Sobhan suggested investigating whether the country was in a position to benefit from being part of a free trade area by bringing about significant structural transformations in the economy in terms of both production capacity and competitive strength. The one lesson Bangladesh could learn from NAFTA was the way in which Mexico had strengthened its position to enter into a trade agreement with the United States and Canada.

Labour Rights

Professor Momtazuddin Ahmed of the Department of Economics of Dhaka University raised the issue of labour rights for workers in the Export Processing Zones. It was his opinion that if Bangladesh were pushed by the International Labour Organisation and other bodies into permitting the operation of trade unions in the EPZs, a number of firms, most of them belonging to the apparels sector and contributing the major share of earnings in the export region, would be in serious trouble. He suggested that policy makers adopt proper measures towards addressing the issue. Professor Sobhan added to Professor Ahmed's concerns through suggesting that a rather peculiar conflict had been going on over the question of labour rights.

Under existing laws, trade unionism was not permissible in the EPZs. Bangladesh had been coming under formal pressure from the United States, while the sentiment of Japanese and Korean companies was that provisions for trade unions could be a violation of the contractual agreements reached so far.

Coming forth with his views on EPZs and trade unions, Mr. Dennis Browne said the kind of pressure Sobhan had referred to was an unwarranted interference in the domestic affairs of the country. Additionally, introducing the concept of trade unionism could well undermine the performance and efficacy of the industries in the EPZs. He recalled his experience in Sweden where trade unions had opted for a more positive role for themselves at the production level. This role was accorded due recognition when one of the members of the trade union was taken on to the corporate board. The unions in Sweden, said Mr. Browne, put constant pressure on management for the adoption of new technology, improvement of the production process and training of workers in the use of new technology.

Concluding Remarks by the Chairperson

Drawing the deliberations to a close, Professor Rehman Sobhan stated that much of the discussion about a free trade area and preferential trading arrangements in South Asia was in large measure a theoretical overview of prevailing and possible conditions. He believed that Bangladesh had significant lessons to glean from NAFTA, especially through a study of the way Mexico had strengthened its economic competitive position to enter into a trade agreement with Canada and the United States. The Mexicans had utilised NAFTA in making their entry into the obviously bigger market of the United States.

The Chairman of the CPD expressed his thanks to Mr. Dennis Browne for his appropriate and educative responses to the many questions at the end of the keynote paper. He hoped that a beneficial aspect would become noticeable out of the cooperative links between the CPD and the CTPL. Professor Sobhan revealed that the CPD was planning to set up an advisory council comprising members of the business community as well as the government to help strengthen Bangladesh's position in various multilateral trade negotiations.

Annex A

List of Participants
(in alphabetical order)

<i>Professor Muzaffer Ahmad</i>	Professor Institute of Business Administration Dhaka University
<i>Dr Salahuddin Ahmad</i>	Chairman Department of Economics North South University
<i>Professor Momtaz Uddin Ahmed</i>	Professor Department of Economics University of Dhaka
<i>Ms Ayesha Banu</i>	Coordinator (Dialogue & Communication), CPD
<i>Mr Raja Ram Bartaula</i>	Second Secretary Royal Nepalese Embassy
<i>Dr Debapriya Bhattacharya</i>	Executive Director, CPD
<i>Mr Dennis Browne</i>	Director, Centre for Trade, Policy and Law (CTPL), Canada
<i>Mr Samson H Chowdhury</i>	Chairman, Square Groups and President, Bangladesh Association of Publicly Listed Companies
<i>Professor Amirul Islam Chowdhury</i>	Professor Department of Economics Jahangirnagar University
<i>Ms Shahzeea Khan Chowdhury</i>	Dialogue Associate, CPD
<i>Mr Md Amir Khosru Mahmud Chowdhury, MP</i>	Chairman Chittagong Stock Exchange
<i>Mr Den Collier</i>	Political and Economic Advisor Canadian High Commission
<i>Ms Shyamaly Ghosh</i>	Senior Fellow, ICSSR

<i>HE Mr John C Holzman</i>	Ambassador Embassy of United States of America
Mr Jakir Hossain	Research Associate CPD
<i>Ms Mafruha Hossain</i>	Intern, CPD
<i>Mr Moazzem Hossain</i>	Editor, The Financial Express
<i>Mr Annisul Huq</i>	Vice-President, Bangladesh Garment Manufacturer and Exporters Association (BGMEA)
<i>Mr Jahirul Islam</i>	Research Associate Bangladesh Institute of Development Studies (BIDS)
<i>Dr Muinul Islam</i>	Director General, Bangladesh Institute of Bank Management (BIBM)
<i>Ms Tanya Islam</i>	Research Associate, CPD
<i>Mr Aftab-ul-Islam</i>	President, Dhaka Chamber of Commerce and Industry (DCCI)
<i>Mr Md Abdul Jalil</i>	Hon'ble Minister Ministry of Commerce Government of Bangladesh
<i>Mr Syed Jamaluddin</i>	Secretary General Federation of Bangladesh Chambers of Commerce and Industries (FBCCI)
<i>Mr Syed Ali Kabir</i>	Retired Governor, Bangladesh Bank
<i>Mr Syed Humayun Kabir</i>	Chairman, Renata Ltd, and Former President, Metropolitan Chamber of Commerce and Industry (MCCI)
<i>Mr Faisal Kamal</i>	Intern, CPD
<i>Mr Abul Kasem</i>	Economic Editor, The Daily Inqilab
Ms Paula Mehboob Kazi	Research Associate CPD

<i>Dr M Abid Khan</i>	Deputy Chief Bangladesh Tariff Commission, Segun Bagicha
<i>HE Mr Iqbal Ahmad Khan</i>	High Commissioner The High Commission for The Islamic Republic of Pakistan
<i>Dr Rokeya Khatun</i>	Social and Gender Advisor Canadian International Development Agency / Program Support Unit (CIDA/PSU)
<i>Mr Arif Al Mamun</i>	Research Associate CPD
<i>Dr K A S Murshid</i>	Research Director Bangladesh Institute of Development Studies (BIDS)
<i>Ms Sharmina Nasrin</i>	Intern, CPD
<i>Ms Kate Berry Preston</i>	Development Advisor Canadian International Development Agency / Program Support Unit (CIDA/PSU)
<i>HE Mr David Preston</i>	High Commissioner Canadian High Commission
<i>Mr A S M Quasem</i>	President, Bangladesh Employers' Association Chamber Building, Dhaka
<i>Mr Salman F Rahman</i>	Chairman, Bangladesh Textile Mills Association (BTMA)
<i>Mr Ghulam Rahman</i>	Secretary Ministry of Commerce GOB
<i>Ms Moushumi Rahman</i>	Research Associate CPD
<i>Professor Mustafizur Rahman</i>	Research Director, CPD

Mr Md. Saifur Rahman

Research Associate
CPD

Mr Mahbub-Ur Rahman

President, International
Chamber of Commerce-
Bangladesh (ICC, B)

Dr Zaidi Sattar

Economist
The World Bank, Dhaka

Mr Quazi Hasnat Shahriar

Research Associate, CPD

Dr Hafiz G A Siddiqui

Pro-Vice Chancellor
North South University

Mr Bob Snider

First Secretary
Canadian High Commission

Professor Rehman Sobhan

Chairman, CPD

Mr M Syeduzzaman

Former Finance Minister, GOB

Mr Syed Shah Tariquzzaman

Consultant and Advocate
Development Law Services

Ms Fahmeeda Wahab

Development Advisor,
Canadian High Commission

Journalists

<i>Mr Faruque Ahmed</i>	The Independent
<i>Mr Nazmul Ahsan</i>	The Sangbad
<i>Mr Anis Alamgir</i>	The Ajker Kagoj
<i>Mr Asrafuzzaman</i>	The Muktakantha
<i>Mr Md Abul Hossain</i>	Economic Review
<i>Mr Meer Saiful Islam</i>	United News of Bangladesh Ltd (UNB)
<i>Mr Enamul Kabir</i>	The Muktakantha
<i>Mr Md Mizanur rahman Khan</i>	The Independent
<i>Mr Asjadul Kibria</i>	The Prothom Alo
<i>Mr Manjur Mahmud</i>	The Daily Star
<i>Mr Talat Mamun</i>	The Daily Arthaneeeti
<i>Mr Sohel Manzur</i>	The Financial Express
<i>Mr Shafiqur Rahman</i>	Chairman, United Social Agency & Director, Asia News Agency
<i>Mr Nurul Alam Shaheen</i>	The Daily Inqilab
<i>Mr Asif Showkat</i>	The Daily Arthaneeeti
<i>Mr Helal Uddin</i>	The Banglabazar Patrika
<i>Mr Jamal Uddin</i>	The Daily Janakantha