

The State, Global Economy and Domestic Politics: Explaining Canada's Decision to Join Free Trade Agreements

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In this paper a perspective integrating domestic politics and international negotiation was proposed to explain the initiation, negotiation and ratification of the FTA and NAFTA. We argue that this regional trade cooperation was intimately tied to the electoral calculus of political leaders. Moreover, in order to get support from civilian groups and provinces to win ratification and implementation of regional trade agreements, national political leaders need to create institutions to provide civilian and provincial inputs to give legitimacy to the negotiated outcomes. Again, the structure of domestic preferences matters

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投稿日期：二〇〇四年十月十四日；接受刊登日期：二〇〇五年三月二十八日。

東吳政治學報/2005/第二十一期/頁 115-157。

crucially. Finally, changes in the ratification environment (i.e., changes of government due to election) in the course of an international negotiation can be fatal for cooperation. Accordingly, electoral competition, executive federalism, state-group linkage, ratification process and international negotiations are closely linked together. Domestic politics perspective thus had important influences on these regional trade cooperative attempts.

Key words: domestic politics, FTA, NAFTA, state-group linkage, Executive federalism, ratification process, international negotiation.

I. Introduction

The last two decades have seen dramatic developments and changes in Canadian trade policy. Canada, which had long eschewed a free trade arrangement with the United States, negotiated the Canada-US Free Trade Agreement (CUSFTA), which was signed in the second half of 1987 and came into effect on January 1, 1989. The announcement in June 1990 by President Salinas de Gortari of Mexico and U.S. President Bush of their intention to pursue a bilateral free trade agreement forced the Canadian government to decide whether it would again take part in a new round of trade talks. Canada did join in the new round of negotiations, which started about a year later, and led to consensus on a North American Free Trade Agreement (NAFTA) on August 12, 1992.

Some scholars argue that to understand state decisions to pursue free trade agreements, one needs to pay attention to both state policies and the behavior of multinational enterprises (MNEs). The MNEs, along with the states, are a critical factor shaping the evolution of an increasingly interdependent North American political economy (Dunning, 1991; O'Brien, 1995; Eden and Molot, 1991; 1993; Molot, 1997). Eden and Molot argue that the NAFTA proposal had its origins in MNE decisions responding to the changing character of the global political economy. With the shrinkage of economic space and time in the '80s, MNEs began adjusting to the new realities of the global marketplace by rationalizing their distribution of production within and between regional trading blocs, using world wide sourcing techniques and adopting new technologies (Eden and Molot, 1991: 2).

Over the same period, MNEs' direct investment in production facilities in Mexico grew substantially. State policy decisions are integral to the evolution process; as states further integration by reducing trade barriers to the movement of goods, capital and services, harmonizing tax policies, deregulating markets and privatizing national champions, MNEs take advantage of "the possibilities of cross-border interaction...[to]

strengthen international governance at the production level” (UNCTC, 1994: 145; cited in Molot, 1997: 172). As competition for international markets become more intense, Busch and Milner (1994: 260) claim that “internationally oriented sectors will increasingly *demand* and states will be more willing to *supply* regional trade arrangements” (cited in Molot, 1997: 172). It is this key struggle for investment, profit and long-term competitiveness among North America, the European Union and Japan that binds states and MNEs together in the region-building projects.

However, Robert O’Brien (1995: 721) asserts that modeling regional integration on the basis of state-MNEs accommodation neglects issues of democratic accountability and public concern. Moreover, insufficient attention has been devoted to domestic politics, such as Canadian executive federalism,¹ the linkages between states, civilian groups, and businesses, in electoral politics. This present work presents a perspective and argument on the interaction of domestic and global influences affecting regional free trade agreements. Gourevitch’s ‘second image reversed’² model (Gourevitch, 1978) and Putnam’s ‘two-level games’³ model (Putnam, 1988; Evans et al., 1993; Milner, 1988; 1998; Rogowski, 1990) are used to illuminate and emphasize the roles of national political leaders.

These players are often enthusiastic about moves toward regional cooperation. Their first priority, however, is generally to get reelected, and their moves toward

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1. Donald V. Smiley (1980: 91) defines executive federalism as the relations among federal and provincial political and bureaucratic officials as they interact in policy formation and implementation (cited from Skogstad, 1992: 345).
 2. Peter Gourevitch (1978: 911) argues that the international system is not only a consequence of domestic politics and structures but a cause of them. International relations and domestic politics are therefore so interrelated that they should be analyzed simultaneously and as a whole.
 3. Andrew Moravcsik phrases it, “the two-level game begins by assuming that statesmen are typically trying to do two things at once; that is, they seek to manipulate domestic and international politics simultaneously” (Evans et al., 1993: 15). In a federal state, the second level game requires attention to domestic societal interests as well as those of sub-unit (provincial) governments (Molot, 1998).

regional cooperation are constrained by the requirement for domestic ratification of any agreement they may negotiate (Milner, 1998). And in Canada, these political leaders, in order to be reelected, must take into consideration the preferences of all eleven provincial governments as well as a large number of important social interest groups. In other words, a complicated array of domestic preferences among social and political groups has a crucial bearing on moves toward regional cooperation, and the outcomes of such moves by political leaders. Finally, the institutions of ratification matter. Particularly, changes in the ratification environment (e.g., changes of government due to election) during the course of an international negotiation can be fatal to cooperation (Milner, 1998). Thus the focus of the present work is the interplay between domestic and international aspects as affects the initiation, negotiation and ratification of regional free trade agreements.⁴

Milner's 1998 work focuses on the politics of Mexico and U.S. but offers little analysis of Canadian domestic politics (Milner, 1998). The present work partially fills that gap, providing initial evidence without purporting to be a thorough and systemic examination. Moving beyond arguments on the interaction between policy-led and FDI-led (Foreign Direct Investment) interaction (Molot, 1997), the present work goes a step farther to take account of state policies and preferences, global economic forces, and domestic politics to explain Canada's decisions first to enter into CUSFTA, and then the NAFTA. The present analysis begins with an overview of three sets of global market forces that have been silently integrating the North American economies: trade linkage, direct investment linkages, and locational decisions of MNEs organizing for global production. That overview of market forces leads into an examination of the way those global market forces, and the Canadian state's policies and domestic politics, interact and combine to determine outcomes in regional trading arrangements.

4. Implementation is omitted from this enumeration because in the Canadian system, once ratification is achieved, implementation is assured and may be regarded essentially as a sequel to ratification.

II. Trade and Investment Linkages in North America⁵

The United States has long been Canada's important trading partner. In 1960, 56% of Canadian exports went to the United States. That figure had increased to 81% by 1994, and it reached 86% by 2003 (Molot, 1997: 173; Statistics Canada, 2005). The United States is also a major source of Canadian imports. In 1979, imports from the U.S. accounted for 72.4% of the total imports. Since then, however, the figure has decreased, falling to 64% in 1989, and then to 61% in 2003 (Molot, 1994: 512; Statistics Canada, 2005; see Table 1). Eden and Molot (1991: 4) provide statistics which show that in 1988 American exports to Canada totaled US\$ 69.9 billion, this flow represented 62.3% of total Canadian imports; in that same year, the value of Canadian exports to the US amounted to US\$ 79.3 billion, representing just 17.3 % of US imports but 71.2% of Canadian exports.⁶ They conclude that Canada depends more on the U.S. both in terms of Canadian exports and imports than the U.S. economy depends on Canadian trade flows. Mexico, too, has become increasingly dependent on the US market for both its exports and imports in recent years. Mexico and Canada have a much more limited trading relationship; in 1989, Canadian trade with Mexico accounted for 0.4% of Canadian exports (0.5% in 2003) and 1.2% of Canadian imports (3.6% in 2003) (Hart, 1990: 66-67; Eden and Molot, 1992; Molot, 1994: 512; Statistics Canada, 2005).

5. The discussion in this section and the following section III is based on Eden (1991), Eden and Molot (1991; 1992; 1993), Molot (1994; 1997).

6. According to Statistics Canada (2005) which showed that in 1994 (first year in NAFTA) American exports to Canada totaled US\$ 100.6 billion (and US\$ 145.3 billion in 2003), this flow represents 67.7 % (61% in 2003) of total Canadian imports; while the value of Canadian exports to the US in 1994 is US\$134.2 billion (and US\$ 233.1 billion in 2003), these exports represent only 20.2% (18.5 % in 2003)of US imports but 81.2% (86 % in 2003)of Canadian exports.

Table 1. Canadian Exports to and Imports from the United States
(% of total exports and imports)

	1980	1985	1989	1994	1998	2000	2003
Exports	61%	75%	71%	81%	85%	87%	86%
Imports	68%	69%	64%	68%	68%	64%	61%

Source of Data: Statistics Canada (19-Jan-2005)

NAFTA has wrought major changes in the trade patterns of North America. In 1994, NAFTA's first year, Canada's trade increased with both the United States and Mexico: from January to August 1994, Canada's exports to the United States grew by 20 %; exports from the United States to Canada rose by 18%. Over the same period, exports from Canada to Mexico rose 33%, and exports from Mexico to Canada rose 31 % (Molot, 1997: 174). According to figures of the International Monetary Fund (IMF), total trade among the three NAFTA countries has more than doubled under NAFTA, rising from US\$306 billion in 1993 to almost US\$621 billion in 2002. In this same period, Canada's exports to the United States grew from US\$113.6 billion to US\$213.9 billion. US exports to Canada grew from US\$96.5 billion to 152.9 billion (Canadian Department of Foreign Affairs and International Trade 2003).

The pattern of foreign direct investment within North America is similar to that of trade flows. In 1991, 64% of foreign investment in Canada was from the United States while 58% of Canadian direct investment abroad was in the United States (Knubley et al., 1994: 151). In 2000, the United States invested \$150 billion in the Canadian economy, and Canadian investment in the United States totaled \$130 billion (MacLean, 2002: 48). In 1991, 63% of FDI in Mexico emanated from the United States, while Canadian FDI in Mexico continued to be very small, accounting for about 1.5% of the total FDI in that country (Molot, 1997: 176). In 2000, Canadian investment in the Mexican economy grew

to \$3 billion, while Mexican investment in Canada, which has always been meager, was at an all-time high of \$470 million (MacLean, 2002: 49).

In brief, the dependence of both Canada and Mexico on the US market and on U.S. investment, and the limited nature of the economic ties between them, demonstrate both the hub-and-spoke nature of the economic linkages in North America and the basis for an emerging trading bloc (Eden and Molot, 1993: 209).⁷

III. Multinational Corporations, Globalization, and Competitiveness

The trade and investment linkages among the three North American economies as described above hide one key factor: the multinational enterprise. MNEs, with their focus on global profit maximization, are responsible for nearly all FDI cross-border flows and perhaps half of all cross-border trade flows are among related firms (Eden and Molot, 1991: 11). Canadian tariffs declined substantially after the Tokyo Round of the General Agreement on Tariffs and Trade (GATT) negotiations, paced by technological improvements in transportation, communication, and production. At the same time, the internationalization of capital flows has promoted globalization of production. As a result, the organization and investment decisions of MNEs began to change.

The globalization of production has allowed the MNEs to migrate to cheaper labor sites in East Asia and Latin America (“worldwide sourcing”). Meanwhile, the internationalization of production has also altered the basis on which international trade occurs; growing trade between affiliated companies, whether intra-firm or other forms of

7. The term ‘hub and spoke’ has been used by Lipsey (1990) and Wonnacott (1990) to characterize a potential series of bilateral free trade arrangements between the US (the hub) and a number of trading partners (the spokes). Eden and Molot (1992) argue that a *de facto* hub and spoke relationship already exists in North America whereby trade and investment linkages flow bilaterally between the US and its northern and southern neighbors. As a result, both Canada and Mexico’s economic performance are highly dependent upon the performance of the U.S. economy. See also subsection B, “Canada and NAFTA,” below.

non-arm's length transactions (e.g., exports to affiliates) accounts for a significant part of both US-Mexican and US-Canadian trade (Eden and Molot, 1993: 212-13). Eden (1994: 7) cites statistics indicating that in 1990, 43% of Canadian imports from the United States and 45% of Canadian exports to the United States were intra-firm transactions.

Given the close connections among affiliates of the same MNE family, it is not surprising that FDI and intra-firm trade flows have been silently integrating the three North American economies (Eden and Molot, 1991: 15). The deep economic ties are largely the result of MNEs' decisions regarding the most efficient organization of production, together with state policies that have facilitated the rational distribution of production across the three countries (Molot, 1997: 177). For a trade-dependent economy like Canada, the issues of competitiveness have to be confronted both by MNEs and the state. It is useful to examine, against this background, the choices the Canadian state faced in the 1980s and early 1990s with respect to regional free trade arrangements.

But before proceeding with that examination, the importance of technological advances must also be noted: (i) information technologies such as computer-aided design and manufacture, robotics, telecommunications hardware and software; (ii) just-in-time manufacturing (i.e. the restructuring or reorganization of production to reduce inventory), which comprises demand-driven supply of components, zero-defect quality control, and minimization of downtime; and (iii) flexible manufacturing systems which is the combination of (i) and (ii). With the introduction of the new production process, many MNEs are relocating parts or all of their assembly activities on a continental basis (Eden and Molot, 1993: 213; Lipsey, 1991) to achieve greater economies of scale and meet competition from producers in Europe, Japan, and the newly industrializing economies such as South Korea and Taiwan.

IV. The Evolution of the North American Trade and Investment Regime: A Domestic Politics Perspective

Canada's economic ties with the United States have been long and close. Since the end of World War II Canada has relied on multilateral negotiations to manage its relationship with the United States. Frustration with the difficulties of seeking agreement among many parties on a wide range of issues has prompted some states to seek solutions to their individual and collective economic interests outside the global trading system (Eden and Molot, 1991: 17). Moreover, MNEs that regard the GATT as having only limited relevance to their increasingly global operations often demonstrate their preferences for regionalism or bilateralism (Ostry, 1992). As a consequence, there is a noticeable recent trend in Canada toward direct bilateral pacts. Molot (1997) claims that three Canadian State trade arrangements have facilitated that trend: the Auto Pact,⁸

8. In addition to new initiatives of slow, incremental progress towards global trade liberalization through GATT, the '60s brought important developments in Canada-U.S. trade relations. Dependence on the American market continued to grow, with the share of Canada's exports to U.S. jumping from 60 % in 1961 to almost 70 % in 1969. On a selective basis, Canadian government and private sector decisionmakers were becoming more interested in bilateral trade deals with the United States. Finlayson and Bertasi (1992: 24-25) indicated that "following a U.S. threat to impose stiff countervailing duties on exports to the U.S. of automobiles manufactured in Canada with the benefit of generous duty rebates on imported transmissions, engines, and parts, the two countries commenced negotiations which resulted in the Auto Pact of January 1965". This pact was a sector free trade agreement under which auto production by the Big Three (Chrysler, Ford and General Motors) in Canada and the United States was integrated to allow longer production runs and the benefits of economies of scale. This in turn would ensure continued vehicle assembly in Canada and the viability of the Canadian auto parts industry (Molot, 1997: 178). The automotive MNEs recognized the benefits of an agreement that would allow them to rationalize the distribution of production across the two countries (ibid). In this pact, Canada has been provided with certain safeguards and trade and investment guarantees. The impact of the Auto Pact on bilateral trade has also been immense. For example, in 1984, Canada's leading export to the United States was motor vehicles and parts, valued at 21.5 billion U.S. dollars. Canada's second leading export was crude petroleum, estimated at 3.3 billion dollars. The leading U.S. export to Canada was also motor vehicles and parts, valued at 19.8 billion dollars. The second

CUSFTA and NAFTA. Molot argues that it is the interaction between state policies and the views and pressures of major economic interests that accelerates the trend towards negotiated free trade agreements. In addition to all of these factors, the following discussion demonstrates that domestic politics intervenes and plays a critical role in every phase of a free trade agreement.⁹

A. Canada and CUSFTA (Canada—U.S. Free Trade Agreement)

(A) Initiation

What were the motivations of the Canadian state for initiating an FTA? What gains did the Mulroney government expect? According to Doern and Tomlin (1991),¹⁰ it was Prime Minister Brian Mulroney who ultimately decided that the potential benefits of the free trade initiative were worth the effort needed to conclude an FTA. He made an intuitive political judgment that this was a policy whose time had come. That judgment was reinforced by several critical factors. First, Mulroney saw free trade primarily as a means to ensure access to the U.S. market during a time of growing American

leading American export to Canada was industrial machinery, with an estimated worth of 5.0 billion dollars (Barron's, 18 November 1985). Research relevant to the Canadian decision to enter the Auto Pact is not available, for that reason we cannot use the interaction of policy-led and investment-led moves in combination with domestic politics perspective to explain Canada's decision to join the Auto Pact.

9. Putnam (1988: 432) argues that "a more adequate account of the domestic determinants of foreign policy and international relations must stress *politics*: parties, social classes, interest groups (both economic and non-economic), legislators, and even public opinion and elections, not simply executive officials and institutional arrangements." We use Putnam's definition to emphasize domestic politics in the field of Canadian executive federalism, state-group linkages, and electoral politics.
10. The most comprehensive analysis of the free trade decision, the negotiations, and the 1988 election is in Doern and Tomlin's book, *Faith and Fear: the Free Trade Story*. The discussion in this subsection is based on that book. Doern and Tomlin (1991: 225) argued that each side in the free trade debate had a vision that was a mixture of faith and fear: "For one, the **faith** in markets and a new Canadian entrepreneurial spirit was combined with **fear** of a new age of American protectionism and Canada's declining competitiveness. For the other, **faith** in the capacity of the state to ensure a more humane Canadian community was coupled with a **fear** of closer integration into the American empire".

protectionism.¹¹ This view mirrored the concerns of the Canadian business community, and pursuing free trade would serve the dominant interests of that community (Doern and Tomlin, 1991: 273). The second key factor in Mulroney's conversion to free trade was his desire to promote national reconciliation.¹² Peter Lougheed as a senior Tory political leader, and his voice in favor of free trade weighted heavily in Mulroney's political calculus.¹³ Mulroney was persuaded that free trade would help to heal the deep regional

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11. Canadians had become increasingly reliant on the American markets as the main outlet for their exports. But that market was turning inward. "Americans were frustrated by their lack of access to the markets of Japan, Europe, Korea, Brazil and elsewhere and by the increasing flow of imports from these countries. Their frustration was turning into anger and Canadians found themselves sideswiped by this anger. Canadians also found themselves the direct targets of protectionist fervor" (Hart, 1992: 316). Given Canada's trade dependence on the United States and growing U.S. protectionism and the damaging recession early in the 1980s, Mulroney agreed that the only route for Canada was to seek an FTA. Such an agreement would broaden access for Canadian exports in the U.S. market and prevent Canadian goods from being caught in the widening web of U.S. protectionist policies (Cameron et al., 1992: 180).
 12. Although he originally took the stand during his campaign for Prime Minister that the Conservatives would not permit free trade with the United States, Mulroney committed to creating jobs and to making Canada attractive to foreign investors. This was part of a larger Conservative government strategy for economic renewal, an important component of which was improved relations with the United States (Molot, 1997: 179). He then permitted initial trade talks between the two countries after his government took power in September 1984. In a speech in New York in December of that year, he declared that "protectionism is our mutual adversary," and that no sector of cross-border trade would be excluded from consideration for free trade and secure market access (MacLean, 2002: 45). The focus of Canadian trade policy had shifted, and that shift became the new course throughout the 1980s.
 13. Peter Lougheed was the dean of Western Canadian politics and a senior Tory political leader. He once was premier of oil-producing province of Alberta. Lougheed's vision of a rising New West was to use revenue from oil to diversify the economies of the western provinces (Bickerton, 1999: 229). Blocking the way was a Liberal federal government more concerned with the economic problems and interests of the core industrial region (such as Ontario) than with the economic aspirations of westerners (Richards and Pratt, 1979). The national economy's manufacturing sector was located chiefly in central Canada, whose economy and society had always had access to an abundant supply of cheap energy. The federal government has historically defined "national policy" in terms of prosperity of manufacturing and responded politically to opinion in densely populated Ontario and Quebec (McMenemy, 2001: 193). Moreover, the federal government seemed intent on limiting the Alberta's returns on its resources.

wounds produced by the National Energy Program (Doern and Tomlin, 1991: 274).¹⁴ And the premiers of the four Western provinces (British Columbia, Alberta, Manitoba, and Saskatchewan) as well as Quebec supported Mulroney's view that the political risks involved in the free trade initiative were manageable (Doern and Tomlin, 1991: 274).

On the bureaucratic side, the dominant player behind the policy choice was the Department of External Affairs, most notably Derek Burney,¹⁵ the senior department official responsible for the United States affairs. He "kept nudging the free trade issue forward, ensuring that it was not pushed aside, insisting that ministers be presented with a full array of alternatives, including comprehensive free trade, over the opposition of other senior External Affairs officials" (Doern and Tomlin, 1991: 274). Burney saw the free

Consequently, political struggle between these western provinces and the federal government escalated through '70s (Bickerton, 1999: 229). It convinced Mulroney that free trade would help heal the deep regional wounds produced by the National Energy Program (see footnote 14). In addition, strong support from Lougheed helped reduce the risks associated with the venture by balancing the opposition it attracted from many other quarters (Doern and Tomlin, 1991: 274).

14. The National Energy Program (NEP), introduced by the Trudeau Liberals in 1980, was seen in western Canada as an unwarranted federal interference in provincial energy affairs. In the Canadian west, the NEP became a hated symbol of regional discrimination. This increased western feelings of alienation (Pratt and Stevenson, 1981). Following its election in 1984, the new Conservative government, committed to reduce the level of government involvement in the economy and to respond to western grievances, incrementally dismantled the Liberals' National Energy Program. Moreover, the Conservative-negotiated Canada-United States Free Trade Agreement of 1988 (CUSFTA) significantly affected national energy policy by establishing a continental market for energy. Canada cannot discriminate between domestic energy prices and export prices to the US of oil, gas or electricity (McMenemy, 2001: 188). To Western Canada, CUSFTA entrenched the free-market energy policies and offered an opportunity to forge an energy producers' charter of rights. The energy provisions were also a continuation of Mulroney's strategy of building a political base in western Canada (Doern and Tomlin, 1991: 80).
15. Stephanie R. Golob (1996: 12-13) argued that this state actor was "policy entrepreneur", an individual who set out to promote the 'continentalist package' with an entrepreneurial spirit that recognized and capitalized upon a long-awaited opportunity to advance not only economic ideas, but also a broader vision for the country, both domestically and internationally. The policy entrepreneur eventually 'selling' ideas and vision to top decision-makers as solutions to converging crises.

trade issue in terms of securing market access and getting the U.S. relationship right (Doern and Tomlin, 1991: 275).

The next step in Mulroney's conversion came from the Macdonald Commission.¹⁶ Mulroney was impressed by Macdonald's argument that free trade would simultaneously address two pressing national problems: it would secure market access in the face of U.S. protectionism, and it would promote national unity, especially in Western Canada, both of which were themes central to the agenda of the Prime Minister (Doern and Tomlin, 1991: 275). The Conservative prime minister was eager to use the recommendations of a committee appointed by the previous Liberal government to give bipartisan legitimacy to his initiative.

The political influence to push CUSFTA through was provided by the business community. It was the business Council on National Issues (BCNI) that was most influential in putting a free trade deal high on the government agenda.¹⁷ The BCNI represents the interests of Canada's largest companies, including many US MNEs, spanning the manufacturing, resource and financial industries (O'Brien, 1995: 711). Busch and Milner (1994: 269) contend that the more multi-national a firm may be, the more likely it is to prefer free trade to protectionism, despite increasing competition from imports. For this reason, by 1985, BCNI had adopted a free trade stance, and this stance

16. Donald Macdonald, being a former Liberal cabinet minister and chairman of the Royal Commission on the Economic Union and Development Prospects for Canada, was appointed by Prime Minister Pierre Trudeau in 1982 in the midst of a recession to examine economic alternatives for Canada (Doern and Tomlin, 1991: 24). The Macdonald Commission agreed with business interests when it concluded that Canada needed to rely more on market forces to solve economic problems. Based on three years of hearings and detailed study, "the report, ratified by twelve of the thirteen commissioners, was met by a wave of equally strong endorsements in editorials across the country" (see Hart, 1992: 317). The cornerstone of the report was that a bilateral free trade agreement should be negotiated with the United States (Merrett, 1996: 14).

17. Busch and Milner (1994: 269) argue that states are more likely to act on the demands of exporters and multinationals. The reasons lie in the fact that these firms account for a great share of national income. They consequently gain and wield political clout and achieve privileged access to policy-makers.

helped to push the government towards an FTA (Molot, 1997). Furthermore, the decision of the Canadian Manufacturers Association (CMA) to reverse its traditional stance and back a trade deal was also important, as it allowed business to present a relatively united front on the issue (O'Brien, 1995: 711; Molot, 1994: 516-17). Moreover, the recession of the early 1980s and growing competition from European and Japanese firms convinced the CMA and its members that they must choose a new strategy. The result was a message to the Canadian government that CMA was prepared to accept free trade (Doern and Tomlin, 1991: 46-50).

These were the key influences behind Mulroney's embrace of free trade. He foresaw economic benefits, including access to the U.S. market, increased productivity, and revitalization of the economy, as well as political benefits, including national reconciliation. These benefits would in turn promote his political fortunes and chances for re-election. Here **international** and **domestic** concerns interact in shaping international negotiation. Six months later after the Conservatives' election victory of September 1984, Prime Minister Mulroney and President Ronald Reagan announced their willingness to begin the search for a free trade pact.

(B) Negotiation

On January 2, 1988, U.S. President Reagan and Canadian Prime Minister Mulroney signed CUSFTA, bringing some two years of negotiations to a successful conclusion. CUSFTA is as far-reaching as any trade agreement ever signed between two sovereign nations. A significant aspect of the negotiation process was that conflicts and resistance were sharper within each negotiating state than between the two states.¹⁸ The process of

18. The literature on the free trade debate within Canada is considerable. For arguments against free trade, see Cameron (1986; 1988). For arguments in favor of free trade, see Crispo (1988). A collection of papers on both sides of the debate can be found in Maslove and Winer (1987), Stern, Trezise and Whalley (1987), and Gold and Leyton-Brown (1988). As to free trade agreement between Canada and the U.S., the United States responded positively to Canada's free trade overtures for two reasons, one international and one bilateral. At the international level there was considerable US frustration with the lack of progress of the Uruguay

trade liberalization has highlighted class divisions in Canada. A broadly based coalition of agricultural, labor, nationalists, women, cultural groups, environmental groups, aboriginal organizations, senior citizens' groups, and many Canadian churches, plus the Ontario provincial government,¹⁹ mobilized against the deal.

Round. For the United States and Canada, GATT has become an insufficient instrument to settle bilateral issues. Bilateralism offered another avenue to promote continued trade liberalization as well as an opportunity to make progress on some of the newer trade concerns such as investment, services and intellectual property (Aho and Ostry, 1990: 155). At the bilateral level the US officials, particularly those in the Office of the US Trade Representative (USTR), saw free trade with Canada as a way to codify the more liberal investment posture of the Mulroney government (Kudrle, 1994: 411). The United States' long standing policy objective has been to gain access to Canadian energy and other natural resources. Moreover, the Reagan administration had other objectives in the free trade talks; these included issues of intellectual property, services, government procurement, subsidies and the resolution of outstanding bilateral trade disputes (Leyton-Brown, 1994: 359). Meanwhile, American firms initially exhibited little interest in free trade with Canada. This US corporate stance can partly be explained by the traditional lack of attention to Canada-US issues in the United States. In the mid-1980s many American firms were more concerned with fair, rather than free, trade (Molot, 1997: 183). Only in July 1987, after the FTA talks had been underway for more than a year, did a US corporate coalition in support of free trade emerge (Doern and Tomlin, 1991: 105-106; Molot, 1997: 183). Opposition in the United States to an FTA came primarily from natural resource and agricultural interests, who frequently complained about what they deemed unfair Canadian trade practices. Organized labor in the United States also opposed an FTA (Molot, 1997: 183). The whole story about the impact of free trade on Canada was not reported in the United States because many newspapers such as the *New York Times* and the *Wall Street Journal* supported the FTA (Merrett, 1996: 44). The Reagan administration did not anticipate any difficulty in getting congressional approval to negotiate free trade with Canada. The House of Representative Ways and Means Committee indicated that it would neither hold hearings on the topic nor raise objections to the negotiation of free trade with Canada (Hart, 1994b: 143; Leyton-Brown, 1987: 152). The Chairman of the Senate Finance Committee and a few of his colleagues used the fast-track debate to attack the administration's trade policy as well as the President's desire for fast-track authority. On the last possible date, fast-track authority was granted on a 10: 10 vote (Hart, 1994b: 142-151; Molot, 1997: 183-184). All of this is evidence indicating that there was limited debate in the United States over the FTA, and that conflict and resistance was not sharp between Canada and the United States.

19. Ontario, one of the central Canadian provinces, has been the province most reluctant to push for comprehensive free trade discussions. The reasons lie partly in history, and partly in the current makeup of provincial economies. Free trade versus protection has been one of the dominant themes in the Canadian

Environmentalists were afraid that integration with the larger U.S. economy would lead to a weakening of Canadian environmental regulations. Many Canadians were worried that the deal would jeopardize Canada's unique cultural identity and put at risk Canada's relatively egalitarian social welfare system (Danaher and Mark, 2003: 230). The most vocal Canadian opposition to free trade came from organized labor. They argued that free trade would lead to uniform labor practices and result in a downward spiral of

regional conflict. The National Policy, a policy for national development which Sir John A. Macdonald and the Conservative party advocated in the 1870s and 1880s, combined tariffs, transportation, and western settlement that privileged and protected those industries producing for the domestic market (Bickerton, 1999: 220). It knit together the regions into a single national economy organized primarily on an east-west basis. Its benefits, however, were not evenly distributed. The central region of the country gained enormously from the National Policy, but both the eastern region (the Maritime provinces, include Newfoundland, Nova Scotia, New Brunswick, and Prince Edward Island) and the western region (British Columbia, Alberta, Saskatchewan, and Manitoba) were placed at a disadvantage and forced to shoulder certain costs (Bickerton, 1999: 221). Under the Policy, central Canadian manufacturing, transportation and financial interests were protected at the expense of the west and the east. High tariffs were used largely to create and sustain a manufacturing base in central Canada. They were resented by the west and the east on the grounds that their consumers were required to buy their protected manufactured goods from central Canada at higher than world prices, while they had to sell their own goods or natural resources in volatile, unprotected world markets—or, as in the case of National Energy Program in the 1970s (see also footnote 14), were forced to sell their oil and gas to central Canadians at less than world price" (Simeon, 1987: 84, 93). Hence, free trade held the promise of resolving one of the principal sources of regional grievances in Canada (Simeon, 1987: 84; Bickerton, 1999: 223). In the meantime, some of the main products of the resource-producing provinces are threatened by rising protectionism in the United States, such as fish in Atlantic Canada, grain farming in Saskatchewan, manufacturing in Manitoba, petroleum in Alberta, and forestry in British Columbia. Free trade would be justified as a way to ensure that American protectionism could be controlled (Simeon, 1987: 84). Reflecting the traditional support of integration with the U.S. as a counterweight to the economic dependence on the rest of Canada, Quebec Premier Johnson supported free trade. In August 1985, at the Premiers' Conference in St. John's, nine of the ten provinces called for free trade. (Simeon, 1987: 85). **Ontario's** reluctance comes from its worry about the jobs of a large proportion of the Ontario manufacturing and automotive industry could be affected by free trade (Simeon, 1987: 85). In sum, **provincial support** on the general objective of freer trade was an important asset for the Mulroney government in the negotiations with the U.S. and with the equally important battle for public opinion within Canada (Simeon, 1987: 86).

wages and workers' rights in Canada to match those in the United States (Merrett, 1996: 50).²⁰ Free trade opponent believed that increased capital mobility brought with it the threat of plant closures and job losses (Merrett, 1996: 51). In protest, the Canadian Labor Congress (CLC), the Ontario Federation of Labor (OFL), the Canadian Auto Workers (CAW), and the United Steelworkers of America spent a total of CAN\$2.8 million on anti-CUSFTA advertisements. However, according to Merrett (1996: 50), the unions were no match for the organized and well funded supporters of the FTA.

The unions faced the business establishment, the federal Conservative Party and the governments of two provinces crucial to Conservative power: Quebec and Alberta (O'Brien, 1995: 713).²¹ The single most important Canadian participant in the free trade debate was the Canadian government. As the free trade debate intensified, other branches of government such as External Affairs Canada, as well as the Conservative Party increased their advertising expenditure for promotion of free trade. Nick Fillmore (1989: 19) estimated that "CAN\$32 million of Canadian taxpayer's money was spent on private public relations and polling, radio and television commercials, glossy pamphlets and newspaper advertisements extolling the virtues of closer economic ties with the United States." The campaign explained to Canadians how they would personally benefit from free trade (Merrett, 1996: 36). In addition, the pro-free trade forces coalesced around the Canadian Alliance for Trade and Job Opportunities.

The Alliance was formed by Canada's major business associations, such as BCNI, the Canadian Chamber of Commerce, the Canadian Exporters' Association, the Canadian Federation of Independent Business, and the Canadian Manufacturers' Association. The

20. Canadian unions were much stronger than their American counterparts. Moreover, American labor lost a number of hard won rights under the Reagan administration and were paid lower wages and less generous unemployment insurance than their Canadian counterparts (see Merrett, 1996: 50).

21. According to O'Brien (1995: 713), "the Alberta government saw the FTA as a method of limiting federal interference and cementing the creation of a continental energy market. In Quebec, it was hoped that the deal would loosen dependence on the rest of Canada and secure export markets to the United States."

political influence of business associations can be found in the 1988 election. The amount of direct business participation in that election was unprecedented, with over 160 corporations, 20% of which were foreign-owned, donating more than CAN\$5.2 million over a two-year period to support Alliance positions and convince the public to support free trade (O'Brien, 1995: 714; Doern and Tomlin, 1991: 219). Approximately CAN\$2.1 million of that total was spent during the election campaign (O'Brien, 1995: 714). Moreover, local chambers of commerce and individual businesses advertised their views, held public meetings, and lobbied company employees (Doern and Tomlin, 1991: 219).

Even consumers, as represented by the Consumers' Association of Canada, and small business, as represented by the Canadian Federation of Independent Business, endorsed CUSFTA (Crispo, 1988: 192). Furthermore, the authority of institutions like the Macdonald Commission, the Economic Council of Canada, and the C.D. Howe Institute, and economists such as Richard Lipsey, provided more factual and objective evidence for the pro-free trade coalition than that of their opponents (Doern and Tomlin, 1991: 223).

The free trade issue dominated both the television and newspaper media in the 1988 election: 56% of television coverage and 58% of newspaper coverage of issues focused on free trade. The remainder of the coverage was spread quite evenly over national unity, tax reform, peace, environment, social and women's issues—but none of these stood out as being very significant in comparison to free trade (see Table 2 and 3) (Jackson and Jackson, 1990: 531).

Table 2 Television Coverage of Issues
(Percentage of All Items in which Policy Issues were the major Topic)*

<i>Issue</i>	<i>Percentage</i>
Free trade	56.4
Economics (other than free trade)	11.8
Social issues	6.0
National unity	5.4
Environment	5.0
Peace/Defense	2.0

*296 items were included.

Source: Adapted from Table 2 in Frizzel, Pammett and Westell (1989: 86).

Table 3 Issues Covered in Newspaper
(Percentage of All Items Mentioning Issues)

<i>Issue</i>	<i>1988</i>
Free trade	58.0
Social	6.0
National Unity	6.0
Tax reform	5.0
Peace/Defense	4.0
Women's rights	4.0
Economy/Unemployment	3.0
Patronage	1.0
Energy	1.0

Source: Adapted from Frizzel, Pammett and Westell (1989: 86).

For each sector and each province, the problem for the negotiators was **domestic politics**. National political leaders had to listen to the complaints of these groups and provinces, because their support would be needed to win ratification. In the Canadian federal system, because of the division of powers, trade policy coherence requires provincial information and technical expertise. In addition, national trade policy must also be formulated in conjunction with sectoral interests (Skogstad, 1992: 346).

CUSFTA, implemented on January 1, 1989, has a strong federal state clause.²² It contains many provisions that affect subjects of provincial jurisdiction, among them energy and natural resources, agriculture, investment, consumer protection, and local market regulation (the sale of wine and liquor). In addition, other non-tariff barriers such as subsidization or regulation of resource industries may require extensive provincial collaboration (Hart, 1985: 29). Moreover, the national treatment provisions of CUSFTA affect the provinces (Molot, 1998: 7). The Canadian government therefore established the Continuing Committee on Trade Negotiations (CCTN) during the negotiation of CUSFTA, to overcome the diffusion of authority created by the federal system.

The CCTN was a forum where senior federal and provincial trade officials met, first quarterly and later monthly, to discuss trade issues, exchange views and information (Skogstad, 1992: 337), inform the development of Canadian negotiating positions, contribute to a stronger consensus on priorities and approaches, and strengthen Canada's hand at the bargaining table (Hart, 1994a: 48). The provincial representatives' technical advice, and their detailed knowledge and advocacy of local economic interests were

22. In joining the GATT after World War II, Canada agreed to be bound by what was called the "federal state clause", a provision that recognized the particular situation of federations in implementing international agreements. Article XXIV (12) of the GATT states: Each contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territory. For Canada, this clause "allowed some breathing room and acknowledged the complexities of **domestic politics** and jurisdictional responsibilities" (Molot, 1998; Brown, 1990: 90).

valuable to the development of a common Canadian position (Brown, 1990: 114). From the provincial perspective, this federal-provincial consultation process during the negotiation of CUSFTA reached a new level and enhanced the policy-making stature of the provinces with respect to trade issues (Doern and Tomlin, 1991: chapter 6; Hart, 1994b: 84-85, 127-129; Brown, 1990: 94-96) and with respect to the examination of specific sectoral concerns as well as continuing trade irritants (Kukucha, 1996: 170; Molot, 1998: 12). Where trade disputes impinge directly on provincial interests or draw one or more provinces into a dispute, federal relations with the provinces can be critical to successful resolution (Brown, 1990: 101).

By May of 1986 the federal government had created two types of forum organizations to provide societal inputs from the private sector. First, the 38-member International Trade Advisory Committee (ITAC), chaired by Northern Telecom chairman Walter Light, provided all interests (agricultural, labor, business, consumer, academic) an opportunity to inform and advise the minister of international trade on policy issues (Skogstad, 1992: 338). At the same time, complementing the ITAC were the fifteen Sectoral Advisory Groups on International Trade (SAGITs) designed to provide information about the implications (adjustment impacts) of trade provisions on a sector-by-sector basis (Skogstad, 1992: 338). These forums met the expectations of groups with stakes in the negotiations, that their views would be considered, and thus added to the legitimacy of the negotiated outcomes (Skogstad, 1992: 338). As a consequence, Canadian trade negotiators were faced with the requirement of broad participation and extensive consultation on trade policy, including both the provincial governments and these private sector forums.

The federal government was anxious to structure opportunities for both active and passive supporters of free trade, in order to counterbalance negative arguments about free trade. Simon Reisman, a retired deputy minister of finance with a long and distinguished record as a trade negotiator, was charged with the bilateral negotiations. He established a

separate office, the Trade Negotiations Office (TNO), outside the normal structure of the federal government. This office, brought together over 100 trade policy and law specialists from various federal government departments, and became the focal point for the development of Canada's negotiating position (Leyton-Brown, 1987: 154; Thomas, 1992: 52-53). Reisman appointed Gordon Ritchie to be his deputy for the bilateral negotiations. Below Reisman and Ritchie, a team of assistant negotiators took charge of federal-provincial relations, industry liaison and analysis, legal advice, and the details of the negotiations (Hart, 1992: 319).

Reisman came armed with a single vision of a comprehensive agreement that would establish the rules of the game for Canada-U.S. trade relations for several generations into the future. If the US was prepared to accept his vision, he was prepared to extend this principle of comprehensive agreement to cover the US priorities of investment and intellectual property (Hart, 1992: 321-322). This was a vision he had explained to the federal cabinet, to provincial ministers and officials, to the business community and to anyone prepared to listen (Hart, 1992: 322). By the end of September of 1986, Reisman and Peter Murphy (US chief trade negotiator) and their senior advisors had met five times to establish the negotiating agenda and priorities, settle a working method, gain each other's confidence, and generally set the ground rules for the substantive negotiations. The two sides had set up working groups on intellectual property, customs matters, agricultural trade, services, government procurement and subsidies as well as fact-finding groups on automotive trade, energy, fisheries and state and provincial barriers (Hart, 1992: 320). By September 1987 Reisman and Murphy had presided over twenty plenary negotiations, and a dozen working groups had held numerous technical meetings. Canada made dozens of negotiating proposals and finally had offered the complete draft text for an agreement (Hart, 1992: 324).

As negotiations proceeded, Reisman's team would periodically brief the SAGITs and seek their advice on particular issues. Trade minister Jim Kelleher, accompanied by

Reisman or Ritchie, met regularly with the ITAC. CCTN, being made up of senior officials from each of the provinces, provided an effective conduit for provincial participation, and Riseman would meet on a monthly basis with CCTN, to be briefed on progress and to share ideas (Hart, 1992: 319). Riseman met eighteen times with CCTN, and the Prime Minister met six times with the provincial premiers. Dozens of consultations with the ITAC and SAGITs advisory forums had perfected the Canadian negotiating positions. Weekly meetings with trade related ministers had kept them engaged in the detail of the negotiations. Despite the ongoing public debate and controversy in Canada, the federal official effort was in good shape (Hart, 1992: 322). These domestic efforts critically shaped the international negotiations. The two enduring institutional features of Canadian domestic policy-making, executive federalism and state-group linkages, constitute significant parts of Canada's international trade policy-making.

(C) Ratification and Implementation

Argument as to domestic politics in the present work emphasizes ratification and treats implementation as its eventual sequel, because under Canada's parliamentary system implementation is relatively predictable. The ruling Progressive Conservative Party has a large majority in the House of Commons and will eventually prevail over the Liberal majority in the non-elected Senate, which can delay but not block acceptance of CUSFTA (Schott, 1988: 15). Ratification was therefore quite assured, as long as the Conservatives remained in power. Resistance was so strong, however, that the opposition Liberal Party forced an election over the free trade deal. The acrimonious debate over trade was resolved in November 1988 election when the Conservative re-secured a majority by winning 58% of the seats in the House of Commons (Mahant, 1993).²³ The

23. The Conservatives secured their mandate on free trade by winning 58% of the seats in the House, but with the support of only 43% of the electorate. While it was true that more than 50% of Canadians supported the

1988 election did produce a mandate for CUSFTA in the parliamentary majoritarian sense and the CUSFTA decision is regarded as democratically legitimate (Doern and Tomlin, 1991: 294). As a result, the Conservatives were in a solid position to implement CUSFTA and continue the pursuit of closer economic relations with the United States (Cameron and Tomlin, 2000: 6). However, if Mulroney government had not won the 1988 election, the change of government would have brought Canadian ratification into serious doubt. Electoral politics and ratification were thus a major issue throughout the negotiations and afterwards.

B. Canada and NAFTA (North American Free Trade Agreement)

(A) Initiation

What were the motivations of the Canadian state to participate in NAFTA? What gains did Mulroney government anticipate? The Canadian state did not expect Mexico's show of interest in free trade with the United States and was surprised by the sudden interest of the U.S. in another free trade agreement. Were Mexico and the United States to sign a bilateral free trade agreement, the resulting "hub and spokes" relationship would disadvantage both Canada and Mexico (Wonnacott, 1990). The United States would enjoy preferential tariff-free access to the markets of both its partners, but each of them would only have competitive access to the U.S. market and no particular access to each other (Lipsey, 1990; Lipsey et al., 1994; Leyton-Brown, 1994). The United States would have been the only location from which a producer would have had free trade access to all three markets, an arrangement that would have diminished Canada's attraction for Foreign Direct Investment (FDI) (Lipsey et al., 1994: 23). And if Canada declined participation and then sought to join NAFTA at a later date, it would probably have to accept conditions already set by the original NAFTA partners (Lipsey et al., 1994: 23).

Liberals and New Democrats (NDP), it does not follow that a majority of Canadians used their votes to oppose free trade (see Doern and Tomlin, 1991: 238-39).

The Canadian government concluded that the only way to defend its various interests was by participating in the original NAFTA negotiations.

Consequently, Canada entered into the NAFTA negotiations with the primary objective of preventing the erosion of benefits achieved in CUSFTA. It also sought to resolve a number of specific irritants with the United States that had arisen under CUSFTA (Molot, 1997). Finally, it sought increased access not only to the growing Mexican market, but also access for Canadian industry and consumers to low-cost Mexican products (Wonnacott, 1994: 170).

Although the Canadian state's decision to participate in NAFTA negotiations was thus largely defensive, still there were economic benefits to be gained: Canadian firms would gain from access to a growing Mexican market. Here international and domestic concerns interact in shaping international negotiation. In early 1991 Canada opted into the negotiation, and President Bush announced on 5 February 1991 that the three countries would initiate negotiations on a North American Free Trade Agreement. Trilateral negotiations commenced in Toronto on 12 June 1991. The prospect of increased growth, markets and jobs motivated the three political leaders. "Like President Bush, Mr. Mulroney is expected to use positive features of the trade agreement in his own bid for reelection" (New York Times, 1992).

(B) Negotiation

NAFTA, signed by The United States, Canada, and Mexico on 17 December 1992, is the most far-reaching free trade pact ever negotiated between regional trading partners,²⁴ and it was the first reciprocal free trade pact between developing and

24. Ten years ago the three countries formed a free trade area with a total gross domestic product (GDP), at present, of US\$11.4 trillion. "This makes North America the world's largest free trade area, with about one-third of the world's total GDP, significantly larger than that of the European Union. Even with the addition of ten new members next year, the EU's GDP will increase to US\$8.3 trillion, still well behind the NAFTA region" (see report from the Canadian Department of Foreign Affairs and International Trade, 2003).

industrial countries. NAFTA was scheduled to enter into force 1 January 1994, after ratification by the three legislatures. Public debate in Canada during NAFTA negotiations was much less fierce than the CUSFTA debate. There are fewer societal and state pressures promoting Canadian participation in the NAFTA talks, as the agreement was essentially an extension of CUSFTA to include Mexico. Among provincial governments, the line-up was for the most part similar to the line-up as to CUSFTA: Quebec, Alberta, Saskatchewan, and the Atlantic provinces favored participation in the NAFTA talks; Ontario was strongly opposed to a trilateral arrangement; and Manitoba and British Columbia were undecided. Moreover, NAFTA provisions on investment and financial services apply to the provinces, and the labor and environment side agreements cover topics that fall largely under provincial regulation (Molot, 1998: 8).²⁵ As a result, Canada's federal negotiators were more dependent on provincial information, expertise and cooperation for implementation than was the case with CUSFTA.

It has been observed above that class conflict and resistance was sharper within states than between states during the CUSFTA negotiations. During the CUSFTA negotiations, the Canadian government had set up CCTN (Continuing Committee on Trade Negotiations) as a forum for provincial inputs and exchange of views and information, and to promote a cross-provincial consensus. During the NAFTA negotiations, the Canadian government established the Federal-Provincial Committee on the North American Free Trade Agreement (C-NAFTA) to serve the same role (Abelson, 1996).

25. George MacLean (2002: 47) indicated that "side agreements on labor and environmental protection widen the scope of the Agreement. The North American Agreement on Labor Co-operation (NAALC) was created to promote interaction on labor matters and enforcement of domestic labor law. The Commission for Environmental Co-operation (CEC), founded in 1994, seeks to coordinate regional environmental cooperation, reduce potential environmental and trade conflicts, promote the implementation of environmental law, facilitate cooperation in conservation efforts, and to protect and strengthen the North American environment."

In terms of social pressures, Canadian MNEs, the Canadian Chamber of Commerce, the Canadian Manufacturers Association and the Automotive Parts Manufacturers Association all believed that Canada should not permit others to define the North American trade and investment regime; in their view Canada had to participate in the NAFTA negotiations (Eden and Molot, 1991: 28). Integration with the broader U.S.—Mexican market could still prove critical for important Canadian industries:

“The combined Southwestern American and northern Mexican market is already attracting a wide range of exporters, from Nova Scotia fishermen to Ottawa telecommunications firms to Alberta natural gas companies to British Columbian coal mines. Canada’s withdrawal from NAFTA now would penalize its shrinking automotive industry, which would find itself excluded from the continent’s fastest-growing market. It would hurt Canadian wheat growers, who have quietly become Mexico’s biggest suppliers, and the lumber exporters who hungrily eyed the timber-scarce Mexican construction market. Most dangerous of all, it would make Canada less attractive to Asian and European investors.” (Orme, 1996: 53)

Labor leaders, farmers, and others were concerned with the social effects of NAFTA. They feared that lower wages and lower environmental standards in Mexico would lure companies and jobs away from Canada (Cameron et al., 1992: 182; Dyck, 2000: 171). In addition, concerns about more job losses and restructuring were closely tied to fears that the government would be limited in its ability to structure welfare policy to help affected citizens (Jackson, 1999). In sum, they saw the NAFTA as eliminating jobs, redirecting investment, and eroding social benefits. While the Canadian government claimed that certain domestic services and industries were either protected or not affected by NAFTA (culture, water, environment, health, safety and labor standards, and social programs), critics noted that the protective wording in these fields was weak (Dillion, 1996). A number of “sensitive” sectors like “autos, textiles, agriculture and petrochemicals are the sectors where negotiations seem to have been the most intense” (Whalley, 1993: 357-58; Milner, 1998: 30). Firms and industries already finding adjustment to the CUSFTA difficult, such as the furniture, shoe, and garment industries,

were concerned about the impact of another trade agreement (Eden and Molot, 1992: 74).

The above mixed views “are reflected in a February 1991 opinion survey which found that forty-six per cent of Canadians supported NAFTA, fifty per cent opposed it, and the remainder were unsure” (Eden and Molot, 1992: 75).

As in the CUSFTA negotiation stage, the Canadian government was anxious to provide opportunities for both active and passive supporters of free trade to counterbalance negative arguments about free trade. The 38-member International Trade Advisory Committee (ITAC) and the fifteen Sectoral Advisory Groups on International Trade (SAGITs), established during the CUSFTA negotiations (described in the foregoing section on CUSFTA), would perform the same functions during NAFTA negotiations, particularly for organized labor and environmental groups, “to try to defuse their concerns” (Mayer, 1998: 116).

On June 12, 1991, the three trade ministers—Carla Hills for the United States, Jaime Serra Puche for Mexico, and Michael Wilson for Canada—met in Toronto to launch the negotiations. For Michael Wilson, the overriding goal was to avoid reopening its existing agreement with the United States. Canada would seek some improvements, particularly on the confusing rules of origin that had recently been the subject of a significant dispute with the United States, but he would insist that CUSFTA be the core of NAFTA (Mayer, 1998: 112). The three trade ministers established some ground rules for the negotiations. And they agreed to create 19 working groups; among the more significant were financial services, agriculture, market access, automobiles, intellectual property, services, and investment. These working groups reported to chief negotiators for each country—Jules Katz for the United States, Herminio Blanco for Mexico, and John Weekes for Canada, who in turn reported to the trade ministers (Mayer, 1998: 112). The negotiating groups began work in the week of June 17, 1991, and the chief negotiators met on July 9 and again on August 6. Between international meetings, trade negotiators consulted domestically with their private advisory groups.

There was good cause for Michael Wilson's concern regarding the "rules of origin" in CUSFTA.²⁶ Trade in automobiles and autoparts constituted by far the largest volume of goods traded among the countries of North America: 14% of U.S. exports to Mexico, 30% of Mexican exports to the U.S., and 6% of U.S.-Canadian trade (Canovas, 1995: 159-183). Any regional free trade agreement discriminates against goods produced outside of the region, and favors goods produced within the region. This requires a rule to determine what are regional goods and what are not. Establishing national positions on the rules of origin was complicated by differences of interests in the private sector (Mayer, 1998: 120). The Big Three automakers—General Motors, Ford, and Chrysler—were the biggest manufacturers in Canada. All three made careful calculations about the effects on their competitive position, of several different possible rules of origin.

GM, primarily because of a joint venture with Izuzu in Canada, needed to keep the percentage low enough for its joint venture cars to qualify for North American treatment, and therefore pushed for 60 percent North American content (Mayer, 1998: 120-121). Ford and Chrysler preferred a 70 percent rule. Canadian autoparts makers also wanted a high percentage rule (Mayer, 1998: 121). Canada and Mexico had always wanted a lower percentage than the United States, to make it easier for foreign operations to set up shop there. The Canadians, who would have been happiest with the 50 percent rule of CUSFTA, reluctantly inched up to 60 percent, but they were unwilling to go higher, lest they jeopardize the status of their Japanese and European "transplant" automakers (Mayer, 1998: 142). As stated by Canadian negotiator John Weekes, "We didn't want to create a situation in which Japanese and European vehicles being manufactured in Canada wouldn't be open to free trade treatment. We worried about this possibility and were working very closely with the Japanese and European transplants" (Mayer, 1998: 142; del Castillo, 1995: 21-50). If the rules of origin went much higher than 50 percent, the

26. The auto "rules of origin" case is based on Mayer (1998).

transplants might not be able to continue to sell duty-free into the United States, thus negating the economic rationale for locating in Canada (Mayer, 1998).

The Canadian internal negotiation can be modeled as a game involving the Big Three, and Canadian autoparts makers, and the several European and Japanese transplants that assembled vehicles in Canada. The Canadian United Auto Workers (UAW) urged a high rule of origin requirement—perhaps 80 percent—but, having few ties to the Conservative party, UAW had little weight in the internal Canadian negotiation (Mayer, 1998: 159). The Canadian negotiators were sensitive to the concerns of the transplants, however, and gave them deference amounting substantially to veto power over the Canadian position (Mayer, 1998: 159). This Canadian rules of origin negotiation case demonstrates that a two-level bargaining in which the preferences of powerful private interests within the domestic arena, some national and some transnational, largely determine the national positions taken by trade negotiators in the international arena (Mayer, 1998: 157). On August 12, the negotiators shook hands on a deal that would be the North American Free Trade Agreement.

The present work argues that in every sector, the problem for the Canadian trade negotiators was domestic politics. The state must listen to the complaints and concerns of the interest groups, because the support of these groups is needed in order to win ratification and implementation. Accordingly, domestic pressures critically shaped the international negotiations.

(C) Ratification and Implementation

NAFTA was signed in December 1992, with implementation scheduled for 1 January 1994. It was a sad but potent coincidence that shortly after CUSFTA came into effect in 1991, Canada suffered its worst recession since the '30s. Scholars (including Finlayson and Bertasi, 1992: 39; Gaston and Trefler, 1997; Pastor, 2002) found that the poor economic conditions of the early '90s such as recession, the Bank of Canada's fight against inflation with high interest rates, de-industrialization, deteriorating labor

productivity, and rising labor costs account 86% of the 390,600 jobs lost between 1989 and 1992. Many Canadians saw the recession as a consequence of free trade, and dissatisfaction with free trade increased. By the summer of 1991, Prime Minister Brian Mulroney had sunk to historical lows in public opinion polls, with barely 15 per cent of the electorate indicating that they would vote for the Tories if an election were held at that time (Brooks, 2000: 194).

The Tory government, even though its popularity was at the lowest level of any Canadian government in this century, is a strong advocate of free trade and economic integration. But its efforts to change attitudes and perceptions towards NAFTA were seriously undermined by attention diverted to national unity issues (Bruning, 1993: 129). The government was particularly distracted by a profoundly divisive constitutional crisis created by the failed October 1992 referendum on the constitutional proposals known as Charlottetown Accord that would have granted special status to Quebec (Grinspun and Cameron, 1993: 14).²⁷

In sum, serious recession in the early '90s, the introduction of GST,²⁸ and the failure of the 1992 Charlottetown Accord referendum all greatly contributed to the unpopularity of the Mulroney government. In 1993 Mulroney stepped down, as the least

27. An agreement on major constitutional changes reached by the federal, provincial and territorial governments, and Native groups, following extensive public consultations, but which was subsequently rejected in a country-wide referendum, 55 to 44 % (McMenemy, 2001: 39). In October 1992 Canadians overwhelmingly defeated a proposed constitutional change that would grant distinct-society status to Quebec, among other important changes that affected native peoples, the structure of the national senate, and the rights and privileges of distinct minorities. More than half of the provinces refused to support the proposed constitutional change. Quebec and the rest of Canada were in the process of determining their positions on the specific issues brought out in the recently defeated referendum (Bruning, 1993: 129).

28. A federal consumption, or value-added tax introduced by the Conservative government in 1991, applied to virtually all goods and services sold at all stages of production and distribution. The GST, which replaced the federal manufacturers' sales tax, is similar to a retail sales tax in that it is paid by the consumer. The tax was introduced despite considerable opposition. The unpopularity and defeat of the Conservative government in 1993 was due in some degree to the GST (McMenemy, 2001: 123).

popular Prime Minister in Canadian history, but his misfortunes had little impact on the ultimate fate of his trade policy. Kim Campbell, his better-received successor as party leader and Prime Minister, backed Mulroney's decision to push NAFTA through the House of Commons before the fall election in 1993 (Orme, 1996: 49).

In June 1993 Canada passed legislation implementing NAFTA. The Conservative majority government was defeated in the Canadian general election,²⁹ however, and the

29. Prime Minister Mulroney sought to establish the party's dominance by forging a coalition of Quebecois nationalists and western populists. The failure of the 1992 referendum on Charlottetown Accord was a rejection of the Conservative government's Quebec strategy. Moreover, Mulroney's western strategy did not win out either. Many westerners believed that existing federal arrangements allow Ontario and Quebec (where the major part of the votes and seats necessary for a majority just happened to be) to take away the resource wealth of the west, to fuel growth and prosperity in the central provinces (Brook, 2000: 194). Mulroney hoped to establish a firm base of support in western Canada by elevating western Canadian members of parliament to prominent positions in his government and promoting western interests generally (McMenemy, 2001: 62). In 1987, the Mulroney government awarded a multimillion-dollar maintenance contract for the CF-18 jet to Canadair of Montreal (a Quebec-based firm) rather than Bristol Aerospace of Winnipeg (located in Manitoba of western Canada), even though the latter firm had submitted a bid that was cheaper than and technically superior to Canadair's (Tanguay, 1999: 338; Brooks, 2000: 195). Most westerners were enraged by this decision. Both CF-18 affair and the Charlottetown Accord referendum were interpreted by western populists as special deals for Quebec that were directly harmful to the interests of the west (Bickerton, 1999: 230). What was needed was a new party to hear the voice of western protest to extract favorable policies from central Canada; the Reform Party's founding convention was held in Winnipeg in the fall of 1987 (Tanguay, 1999: 338; Brooks, 2000: 195; Dobbin, 1992; Flanagan, 1995). Preston Manning's Reform Party was able to use the CF-18 affair, the Charlottetown Accord, and unpopular new taxes such as GST, among other unpopular measures, to launch a populist revolt against the governing Conservatives. Mulroney's inability to hold together the coalition of western populists and Quebecois nationalists ultimately led to the fracturing of the Conservatives Party and the partial electoral realignment of 1993 (Tanguay, 1999: 336). The Conservatives took a mere 16% of the vote and were reduced to two seats only in Parliament, their worst performance by far since 1867 (Tanguay, 1999: 337). The Reform Party won 52 seats, while the Bloc Quebecois won 54. The Liberals won a comfortable majority of 177 of the Parliament's 295 seats. The success of the Bloc Quebecois reflected disaffection with federalism among Quebecers following the failure of the Charlottetown Accord (Massicotte, 1999: 174). The Reform Party's displacement of the Conservatives as the dominant party in the west in 1993

change of government in late 1993 brought Canadian ratification into doubt. Only after receiving several assurances from the Clinton administration did the newly elected Liberal government agree to implement NAFTA (Molot, 1997: 518; Milner, 1998: 31). Despite much pre-election fanfare, the Liberal Chretien government, once in office, was quite content with minor changes in the pact (Dyck, 2000: 171). In a subsequent atmosphere of gradual economic recovery, the NAFTA implementation process has progressed quite normally. But in Canada, "trade issues and the pressures of global economic interdependence are seldom far from the political debate" (Milner, 1998: 32).

Ratification was thus a major issue throughout the NAFTA negotiations and afterwards. The key concern for the participating countries was domestic, in particular the effect of NAFTA domestically, not internationally. This emphasis on domestic concerns, especially those connected with jobs, wages and government welfare provisions, underlines the linkages among international negotiations, electoral politics and ratification process. Many theories of cooperation, including realism and neo-liberal institutionalism overlook the domestic ratification process entirely (Milner, 1998: 31).

V. Conclusion

Initial evidence is given to demonstrate the strong effect of domestic preferences in the international negotiations of regional trade agreements, and the effect of two-level games in the Canadian context of CUSFTA and NAFTA negotiations. An analysis is offered of the dual roles that political leaders play, negotiating internally to reconcile domestic preferences, and externally to reach trade agreements, followed by domestic campaigning for ratification of such agreements.

A perspective integrating domestic and international elements is proposed to

election gave proof of the continued salience of region in Canadian electoral politics (Bickerton, 1999: 230).

explain certain dynamics in the initiation, negotiation and ratification of free trade agreements. Competing for international markets, MNEs exploiting the globalization of production and intra-firm trade increasingly demand, and states increasingly provide, such regional trade arrangements. Such arrangements were designed as a means to improve a region's competitiveness. Based on the Canadian experience, we argue that this objective will be intermingled with, and may be subordinated to, other objectives in the electoral calculus of political leaders. It was the conviction of Prime Minister Mulroney that along with any economic benefits that would flow from the free trade agreements, these agreements would certainly further his political fortunes.

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國家，全球經濟與國內政治：解釋 加拿大何以決定加入自由貿易協定

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本文提出整合「國內政治」與「國際談判」的觀點，用來解釋加拿大何以決定加入先是「加美自由貿易協定」，其後又是「北美自由貿易協定」，並分三個階段加以分析：從協定發動、談判到批准。本文主張這種區域貿易合作是與政治領袖的選舉考量緊密結合；其次，政治領袖為了贏得國內各利益團體及各省的支持，以使區域貿易協定能順利獲得批准與執行，他們必須創建制度藉以吸納國內各利益團體和各省的意見，以取得談判結果的正當性，因而國內的偏好結構極具重要性；最後，在國際談判過程中假若批准環境發生變化（也即執政黨敗選下台），則國際合作可能胎死腹中。故選舉競爭、行政聯邦主義、國家—團體的聯繫、協定批准程序，與國際談判等彼此之間緊密結合在一起，「國內政治觀點」因而對區域貿易合作企圖極具關鍵重要性。

關鍵詞： 國內政治、加美自由貿易協定、北美自由貿易協定、國家—團體的聯繫、行政聯邦主義、批准程序、國際談判。

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