

Another issue is the impact of the U.S. Western Hemisphere Travel Initiative. The Government of Canada is closely monitoring the Initiative to ensure the secure and timely flow of people and trade across the border. Canada will assist in identifying and assessing options for acceptable documents and their supporting technologies, and in raising awareness of Canada's concerns about the potential negative effects of the Initiative on commerce.

The Government will also continue to work with both the United States and Mexico on a coordinated North American approach to the regulatory and trade aspects of BSE. An overview of the BSE issue is available in Chapter 2.

For more specific information on bilateral trade and investment issues, please consult this document's associated database at <http://www.dfait-maeci.gc.ca/tna-nac/cimap-en.asp>.

Security and Prosperity Partnership

Canada participates with the U.S. and Mexico in the Security and Prosperity Partnership of North America. Some of the initiatives being pursued under the Prosperity banner might be of interest to Canadian exporters. For further details, please visit <http://www.fac.gc.ca/spp/spp-menu-en.asp>. The Government will also continue to highlight the contribution Canadian trade makes to security and defence within North America and abroad. For further information, please visit <http://www.canadianally.com/ca>.

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

There is no doubt that the North American Free Trade Agreement, now more than a decade old, has served Canada well. Canada's merchandise trade with its NAFTA partners has increased 122% since 1994, reaching \$598.5 billion in 2005. Canadian merchandise exports to the United States grew at a compounded annual rate of 6.5% between 1994 and 2005. With regard to Mexico, bilateral trade in 2005 reached

\$17.8 billion, a 292% increase from pre-NAFTA levels (1993). Altogether, our NAFTA partners account for 84.7% of Canada's total merchandise exports.

Trade in services has also increased under NAFTA. Canada's trade in services with the United States and Mexico grew at an average annual compounded rate of 6% to reach \$78.3 billion in 2003, up from \$46 billion in 1994. Our trade in services with the United States reached \$76.4 billion in 2005, up from \$42.3 billion in 1993. Two-way trade in services between Canada and Mexico has grown at an annual compounded rate of 10.6%, to reach over \$1.1 billion in 2003. Approximately 59% of Canada's services exports go to our NAFTA partners.

NAFTA has also had a positive impact on investment. Since 1994, the annual stock of foreign direct investment in Canada has averaged \$264.2 billion. In 2004, total FDI in Canada reached \$365.7 billion, of which more than 65% came from our NAFTA partners. FDI in Canada from the United States increased to \$238.2 billion in 2004. Canadian direct investment in its NAFTA partners also grew, reaching \$193.9 billion in the United States and \$2.76 billion in Mexico.

Looking Forward

The trade and economic environment in which NAFTA operates has changed considerably in the past decade. The emergence of new economic players has transformed the dynamic of world trade. An increasingly integrated trading network, with global sourcing of inputs, as well as redefined markets, drives the need for greater North American competitiveness. Canada is working with its trading partners to ensure that NAFTA continues to be an effective tool for helping North America meet and beat the competition in new and emerging markets.

In responding to the new global challenges, the NAFTA partners have focused on reducing export-related transaction costs and increasing competitiveness. Key to this effort has been work to liberalize the NAFTA rules of origin.³ This work is on an established track, producing improvements to the NAFTA rules of origin each year for the last two years. For example, in 2005 the three

³ *Rules of origin: Laws, regulations and administrative procedures that determine the origin of a good. Rules of origin may be designed to determine the eligibility of a good for preferential access under the terms of a free trade agreement, or they may be designed to determine a good's country of origin for various purposes.*