United States

Introduction

The continuing growth of the United States economy ensures that it will remain by far the most important export market in the world for Canadian goods and services.

The U.S. is Canada's largest market, absorbing 82 percent of total merchandise exports. In 1994, Canadian merchandise exports to the U.S. were $178 billion, a 22.8-percent increase over 1993, representing the most important international factor sustaining economic growth and job creation in Canada. At the same time, Canada's exports of services rose to $17.8 billion. Merchandise imports from the U.S. grew 20.5 percent, to $151 billion. Trade in goods and services between the two countries supports more than 1.5 million jobs in Canada and directly generates 25 percent of Canada's gross domestic product (GDP). In 1994, the $33-billion growth in Canadian merchandise exports to the U.S. was only $7 billion less than total merchandise exports to the rest of the world. In 1994, Ontario, Quebec and Alberta each exported more to the U.S. than all of Canada exported to Japan, Germany, the United Kingdom and China combined.

U.S. total direct investment of $96 billion in Canada accounts for the largest share (65 percent) of total foreign direct investment in Canada, which reached $148 billion at the end of 1994. Similarly, Canadian total direct investment of $67 billion in the U.S. represented the largest share (53 percent) of the $125-billion total Canadian direct investment abroad at the end of 1994.

Finally, the U.S. continues to be the most important market for the Canadian tourism industry. In 1994, 34.8 million U.S. citizens visited Canada, an increase of 6.9 percent over 1993 and generating total revenues of $5.7 billion, 12.8 percent more than in 1993. This increase in tourism activity has contributed to reducing Canada's travel trade deficit with the U.S. by some $1.7 billion, from $5.75 billion in 1993 to $4.09 billion in 1994.

Business Environment

The U.S. market has changed considerably in recent years due to the steady emergence of new technologies and the rationalization of the economy stemming from the early 1990s recession, as well as the implementation of the Canada-U.S. Free Trade Agreement (FTA), the North American Free Trade Agreement (NAFTA), and the establishment of the World Trade Organization (WTO). While the United States remains a major destination for traditional manufactured products, an increasing number of Canadian suppliers of knowledge-based goods and services look to the U.S. market to ensure growth.

Canada's extensive trade relationship with the U.S. has been consolidated and strengthened with the implementation of the FTA, the NAFTA and the introduction of the WTO in January 1995. The market liberalization brought about by these agreements, combined with a continued favourable exchange rate, provide many new opportunities for Canadian firms, especially small and medium-sized enterprises (SMEs).

The FTA tariff reductions continuing under the NAFTA should further improve access to the U.S. market for Canadian suppliers of natural resources as well as manufactured and consumer products. Most tariffs will be eliminated by January 1998.

The NAFTA has strengthened the substantial liberalization achieved under the FTA regarding a number of strategic, high-technology, high value-added industries such as environment, services, information technologies, medical and health-care products and services, and biotechnology. The NAFTA will expand the U.S. market for Canadian contractors, suppliers and services companies. In particular, access by Canadian firms to U.S. federal government contracts has improved. Canadian construction firms and suppliers of Canadian building materials now can bid on major U.S. construction contracts. Important opportunities exist for Canadian firms in the environmental sector, including clean-up work related to U.S. government defense and energy sites and facilities. Canadian services companies now have improved access to both public and private services markets in the United States.

The FTA and the NAFTA have enhanced the already high degree of integration between the two economies. The value of two-way trade of merchandise and services and investment income rose 19 percent, to $402 billion in 1994. Since the implementation of the FTA in 1989, there has been an overall increase of more than 62 percent in bilateral two-way trade, including merchandise, services and investment income.