



4 *Opening Doors to North America*

North American Free Trade Agreement

Overview

January 1, 2004, marked the 10th anniversary of NAFTA's entry into force. As we take stock of its impact to date, it is clear that it has served Canada very well. Canada's trade in merchandise with its NAFTA partners has nearly doubled since 1994, reaching \$573.4 billion in 2004. Under the Agreement, Canadian producers are better able to realize their full potential by operating in a larger, more integrated and efficient North American economy. In turn, the enhanced economic activity and production in the region has contributed to the creation of more and better-paying jobs for Canadians. Consumers have also benefited from the heightened competition and integrated marketplace through better prices and a greater choice of higher quality goods and services.

Under NAFTA, Canada has consolidated its position as the largest merchandise trading partner of the United States. Canadian merchandise exports to the United States grew at a compounded annual rate of 8.5% between 1990 and 2004. With regard to Mexico, our other NAFTA partner, bilateral trade in 2004 reached \$16.4 billion; Mexico is now Canada's fifth largest export destination and ranks third as a source of imports worldwide. Altogether, our NAFTA partners account for 85.4% of Canada's total merchandise exports.

Trade in services has also increased under NAFTA. In 2002, Canada's trade in services with the United States and Mexico was approximately \$82 billion, up from \$46 billion in 1994 (an average annual compounded growth rate of 7.4%). Since 1997, the two-way trade in services between Canada and Mexico has grown at a compounded annual rate of 9.5%, to reach over \$1.4 billion. Our trade in services with the United States reached \$78 billion in 2004, up from \$42.3 billion in 1993. In terms of Canada's total services exports, approximately 61% goes to our NAFTA partners.

NAFTA has also had a positive impact on investment. Since 1994, annual foreign direct investment inflows into Canada averaged \$28.7 billion, almost six times the average registered over the three pre-NAFTA years of 1991 to 1993. Total foreign direct investment in Canada reached \$358 billion in 2003, of which more than 63% came from our NAFTA partners. Foreign direct investment in Canada from the United States increased to \$228.4 billion in 2003. Canadian direct investment in its NAFTA partners also grew, reaching \$164.9 billion in the United States in 2004 and \$2.8 billion in Mexico.

The NAFTA framework will continue to offer an effective and efficient tool for further enhancing Canada's trade and economic relations with the United States and Mexico.

Looking Forward

The NAFTA parties continue to look for opportunities to further enhance trilateral trade and investment. The ongoing work focuses on reducing export-related transaction costs in the NAFTA region.