

NAFTA: Year Two

Introduction

The North American Free Trade Agreement (NAFTA) entered into force for Canada, the United States and Mexico on January 1, 1994. Designed to foster increased trade and investment between the NAFTA partners, the Agreement contains an ambitious schedule for tariff elimination and reduction of non-tariff barriers, as well as comprehensive provisions on the conduct of business in the free trade area. These include disciplines on the regulation of investment, services, intellectual property, competition and the temporary entry of business persons.

The NAFTA has improved Canadian access to the U.S. and Mexican markets and enhanced the attractiveness of the Canadian economy to foreign investors. Since the NAFTA's entry into force, Canadian exports to these markets have shown impressive growth, and foreign direct investment in Canada from all sources has increased markedly.

More importantly, the NAFTA and its predecessor, the Canada-U.S. Free Trade Agreement (FTA), have helped create a more open economy, which has stimulated significant increases in productivity and specialization within industries in areas such as electrical and electronic products, chemicals, tools and beverages. The result has been improved competitiveness of Canadian exports of both goods and services, which now account for 37 per cent of Canada's GDP and are thus a driving force behind economic growth and job creation in Canada.

The NAFTA envisages further work to help fully achieve the objective of a free trade area. Over 30 working groups and committees were established under the Agreement to further facilitate trade and investment, and to ensure effective implementation and administration of the NAFTA's rules. Key areas where this work is being undertaken include rules of origin, customs, agricultural trade and subsidies, standards, government procurement, temporary entry and trade remedies. These working groups and committees report to the annual meeting of the NAFTA Commission, comprising the trade ministers of the three NAFTA partners.

Trade

Exports between the NAFTA partners increased at unprecedented rates in 1994 and continued to expand at high levels in 1995. In 1994, Canadian exports to the United States and Mexico increased by 22 per cent and 31 per cent respectively. Preliminary trade figures for 1995 show that Canadian exports to the United States increased by 13.9 per cent to \$209.7 billion, with two-way trade increasing 12 per cent to \$360.4 billion. Canada and the United States now exchange over \$1 billion in goods and services each day. Despite the economic adjustments required in Mexico by the December 1994 peso crisis and its aftermath, exports to Mexico increased by 5.4 per cent to \$1.1 billion in 1995, bringing two-way trade to nearly \$6.5 billion. (Canadian export figures for Mexico do not reflect, however, the value of many goods shipped to Mexico via the United States.)

An important aspect of the NAFTA for Canada was better access to the Mexican market. Prior to the NAFTA, more than 80 per cent of Mexican exports to Canada entered duty-free.