

agreement, this aspect must also be assessed when evaluating the NAFTA's performance during its initial phase. Although the data are limited, and what information exists is often buried in aggregate data, we can discern some surprising trends in investment flows among NAFTA countries during 1994, the first year of the agreement's operation.

First, U.S. FDI in Mexico during 1994 actually registered a *drop* of 23.5 percent over the preceding year (JETRO online: <http://www.jetro.go.jp/>). However, this almost surely represents investor unease over political and economic events in Mexico during that year—including assassinations of high-profile public figures, the appearance of the Zapatista National Liberation Army, and suspicions that an overvalued peso could soon be ratcheted downward—and not a failure to respond to NAFTA incentives. Indeed, Mexico's Ministry of Commerce and Industrial Development has noted that in both 1994 and 1995, FDI to Mexico from the United States and Canada flowed most heavily into the very sectors that had been liberalized under the NAFTA: in order of importance, financial services, transportation and communications, and industrial production (SECOFI online: <http://www.secofi.gob.mx/>). This suggests that investors are incentivized by the NAFTA provisions and that investment flows toward Mexico will increase on par with that country's ability to reassert macroeconomic and political stability.

And despite the drop in U.S. investment levels, Mexico was still able to increase the total flow of FDI into the country during 1994, largely through investments from non-NAFTA countries hoping to establish manufacturing platforms there in order to compete in the North American market under the "rules of origin" provisions of the NAFTA.

A second finding is that FDI flowing from the United States to Canada in 1994 rose by 350 percent (to U.S.\$72.8 billion) over the preceding year (JETRO online). This also is surprising in light of the fact that investment flows between these two countries had already enjoyed several years of preferential treatment under the bilateral CUSFTA agreement.

The United States attracted high levels of FDI during 1994 (U.S.\$504 billion, an 8.7 percent increase over 1993), but most of this came from non-NAFTA countries, particularly the United Kingdom and Japan. Even so, the United States enjoyed a significant increase in investment from its NAFTA partners. Canada, with U.S.\$43.2 billion, was the fourth largest source of FDI to the United States in 1994, and this level of investment reflected an increase of 33.9 percent over 1993. Investment from Mexico, which