

# INTRODUCTION

The North American Free Trade Agreement (NAFTA) between Canada, the United States and Mexico entered into force on January 1, 1994. Designed to foster increased trade and investment among 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 rules regarding investment, services, intellectual property, competition and the cross-border movement 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 those markets have shown impressive growth, and foreign direct investment in Canada from all sources has increased steadily.

More importantly, the NAFTA and its predecessor, the Canada-U.S. Free Trade Agreement (FTA), have stimulated significant advances in productivity and specialization within the Canadian

economy, and have promoted greater economies of scale, product quality, and cost competitiveness. The result has been improved competitiveness of Canadian exports of both goods and services.

Total trade is a key driving force for economic growth and employment creation in an open economy such as Canada's. The ratio of exports of goods and services to gross domestic product (GDP) in 1996 was 38.4 percent, making Canada's economy the most globally integrated of all G-7 countries.

After three years of implementation, the NAFTA has further advanced existing trends toward market convergence in North America. This is demonstrated by the figures for 1996, which show \$388.3 billion in total Canadian two-way trade with our NAFTA partners, over \$200 billion in outward and inward foreign direct investment, and over \$50 billion in trade in services between Canada and the United States. These figures indicate that important markets for a wide range of goods, services, financial resources, and technologies already exist and have prospered in a well-integrated commercial environment.