

This chapter proceeds to make this case by first documenting the current state of trade in the economy, and provide some indication of its overall importance. Section two lays out the basic facts on the current state and structure of the Canadian economy. The basic point of this section is to highlight the extraordinary degree to which the Canadian economy is integrated into the global economy. In order to understand how Canada got to where it is now, and the role of the Canada-U.S. FTA and NAFTA agreements. Section three provides a historical overview of the economic development of Canada and the role of international trade agreements after World War II. The bulk of the study is contained in section four, which is a review of academic and government research of the impact of these trade agreements on a range of economic outcomes. These include trade volumes and patterns, foreign direct investment, employment, wage and income distribution effects, productivity gains, effects on competition and consumers, and the impact on the long-run growth prospects of the economy through increased international flows of knowledge and diffusion of technology. Most studies are Canadian or NAFTA focused, relying on data covering the first ten years after the agreement. In addition, when necessary, related international evidence is used. The bulk of the evidence is quantitative but some is qualitative. Section five of the study deals specifically with the issue of market access and dispute settlement. Use of unfair trade laws by the national governments within NAFTA was not eliminated by these agreements, despite the economic merits of doing so. An enhanced dispute settlement process was the resulting compromise. As such, it represented an improvement over the status quo at the time, but how effective it would be in increasing security of market access was only to be determined with experience. In section five we review that experience and look at evidence on what its impact has been. Section six concludes with an overall assessment.

Trade and Investment in the Canadian Economy: an Overview

Canada is a nation that is heavily dependent upon trade to sustain incomes and living standards. A few numbers put this in perspective. In 2004, Canada's exports and imports were \$928.5 billion—this is an average trade volume of \$2.5 billion per day, or about \$29,000 for each and every Canadian. Canada's GDP was approximately 1.29 trillion dollars that year. Therefore trade, measured against GDP, is about 72.0 percent of GDP. This number has risen fairly steadily over the decades, but accelerated sharply between 1991 and 2000. In fact, the ratio of trade to GDP for Canada rose 34 percentage points over that nine year period, more than double the increase over the preceding three decades peaking at 85.2% in 2000.

Canada, by virtue of geography and history, trades a great deal with the United States. In 2004, the US was the market for 78.8 percent of Canada's exports. As a much smaller country, what is perhaps more extraordinary is the importance of Canada as the largest trading partner for the US. In 2004, Canada took 19.2 percent of US exports, and Canadian-produced goods and services accounted for 15.8 percent of total US imports. Canada's trade with other countries is important, although an order of magnitude smaller, with the E.U. accounting for 9.3 percent and Japan 2.7 percent of Canadian trade in 2004.