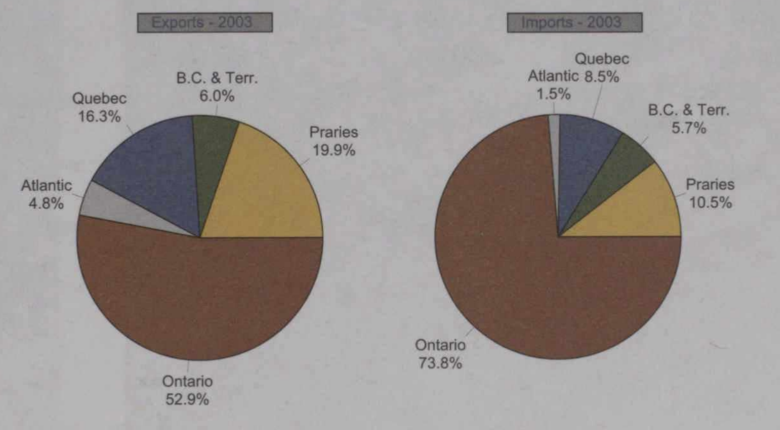
the U.S. market was an even more important market for Canadian manufacturing than was the domestic Canadian market. Every industry saw an increase in the importance of the U.S. as a market between 1992 and 2001[3]. It is notable that the two industries that witnessed the largest increase in the share of their production going to the U.S. – textiles & clothing and furniture & miscellaneous manufacturing are also those that witnessed the largest decreases in tariffs, in both directions, as a result of the Canada-U.S. FTA. The U.S. was a more important market than the Canadian market for five of eleven industries; more than three-quarters of the output from the transportation equipment sector was exported to the U.S. in 2001.

Figure E-4

Canadian Regional Distribution of Merchandise Trade with the U.S.



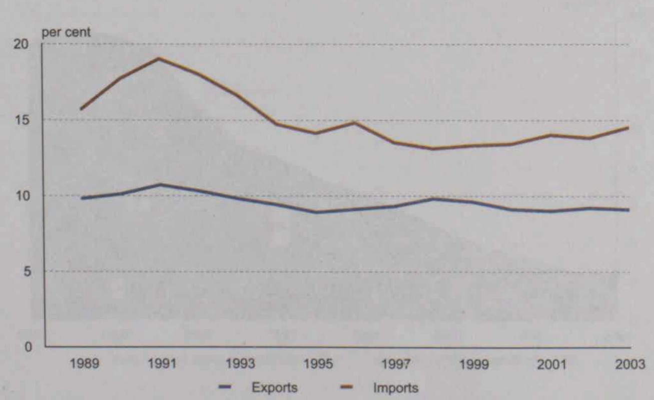
Data: Statistics Canada, Customs Basis

Ontario, amongst the ten provinces, has the strongest linkages with the U.S. accounting for 52.9 per cent of total Canadian exports and 73.8 per cent of total Canadian imports in 2003. The Prairies also stand out for their large share of Canadian exports to the U.S., with the automotive sector accounting for a larger portion of the former and energy exports accounting for an important share of the latter. Quebec stands out for the opposite reason, having relatively weak linkages to the U.S. for both exports and imports.

Canada-U.S. trade in services did not grow as quickly as trade in goods for most of the 1990s but has picked up recently. Between 1989 and 2003, Canadian services exports to the U.S. grew at an average annual rate of 7.7 per cent (6.6 per cent since 1994). As a result, services share of total Canadian exports to the U.S. fell slightly from 9.8 per cent in 1989 to 9.1 per cent in 2003. The trend was even more pronounced for imports, which grew at an average annual rate of 6.0 per cent since 1989 (4.7 per cent since 1994), peaking at 19.0 per cent of total Canada-U.S. trade in 1991 before falling to a low of 13.1 per cent in 1998. The share has rebounded somewhat since then, reaching 14.5 per cent in 2003. The declining share of services in Canada-U.S. trade is more a result of faster growth in goods trade rather than slower performance in trade in services.

Figure E-5

Services as a Share of Total Canada-U.S. Trade



Data: Statistics Canada, Balance of Payments

Foreign direct investment between the two countries grew even more quickly over the FTA/NAFTA period than did trade. The stock of Canadian direct investment in the U.S. grew at an average annual rate of 10.3 per cent since 1989 (12.6 per cent since 1994) to reach $201.8 billion in 2002. Similarly, the stock of U.S. direct investment in Canada reached $224.3 billion, growing 8.2 per cent annually since 1989 (10.3 per cent since 1994). It is not clear what effect the Canada-U.S. FTA and NAFTA have had on bilateral investment, if any, with a large portion of the bilateral FDI in both directions occurring between 1998 and 2001 and