

THE NAFTA

The North American Free Trade Agreement entered into force for Canada, the United States and Mexico on January 1, 1994. Designed to foster increased trade and investment among the partners, the NAFTA 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 did not affect the phase-out of tariffs under the Canada-U.S. Free Trade Agreement (FTA), which was completed on January 1, 1998. As of that date, virtually all tariffs on Canada-U.S. trade in originating goods were eliminated. Some tariffs remain in place for certain products in Canada's supply-managed sectors (e.g. dairy and poultry), as well as sugar, dairy, peanuts and cotton in the United States. The NAFTA provides for virtually all tariffs to be eliminated on trade in originating goods between Canada and Mexico by January 1, 2003. The second round of "accelerated" tariff reductions, covering some US\$1 billion in NAFTA trade, was implemented in August 1998. Mexican tariffs were eliminated on certain Canadian yarns, textile fabrics, chemical products, caulking compounds, certain watches and other specified products.

Total trade and investment between Canada, Mexico and the United States has increased substantially since the NAFTA was implemented. Canada's total merchandise trade with the United States and Mexico was approximately \$570 billion in 1999. Two-way merchandise trade between Canada and Mexico grew by 21.6 percent, reaching \$11 billion in 1999. Our merchandise trade with the United States is up 11.1 percent over the same period, reaching \$559 billion in 1999. In terms of Canada's total merchandise exports, 86 percent go to our NAFTA partners.

Under the NAFTA, Canadian producers are better able to realize their full potential by operating in a larger, more integrated and efficient North American economy. Canadian manufacturers are able to use the least-expensive, highest-quality intermediate goods from across North America in the production of final



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