

## Box E: NAFTA@10

January 1, 2004 marked the 10<sup>th</sup> anniversary of the North American Free Trade Agreement and the 15<sup>th</sup> anniversary of its predecessor, the Canada-U.S. Free Trade Agreement. These anniversaries allow for the opportunity to look back and evaluate the effects of these two agreements for Canada's trade and investment patterns.<sup>1</sup>

Between 1989 and 2003, Canadian goods and services exports to the U.S. expanded at an average annual rate of 8.3 per cent (6.9 per cent since 1994), more than tripling to \$364.8 billion in 2003. Canadian imports from the U.S. increased almost as rapidly, growing at an average annual rate of 6.5 per cent (4.9 per cent since 1994), to reach \$280.0 billion in 2003. The faster growth in exports has resulted in Canada's trade surplus with the U.S. growing from \$4.4 billion in 1989 (\$17.3 billion in 1994) to \$84.9 billion in 2003. The faster pace in export relative to import growth was largely a result of the superior economic performance of the U.S. economy over much of this period, particularly in the early 1990s, as well as Canada's declining exchange rate relative to the U.S. This is also reflected in the rising share of the U.S. in Canadian exports which rose from 71.4 per cent in 1989 (76.6 per cent in 1994) to 79.7 per cent in 2003, as would be expected with U.S. demand growing faster than that of other regions. The U.S. share of Canadian imports rose at a similar pace to exports but began to fall off in 1998 only to return to 68.4 per cent in 2003, roughly the same level as in 1989.

Canada-U.S. merchandise trade<sup>2</sup> followed generally the same patterns as total trade, but was more pronounced. Canadian merchandise exports increased at an average annual rate of 8.7 per cent since 1989 (6.7 per cent since 1994) to reach \$327.7 billion in 2003. Similarly, Canadian imports from the U.S. increased by 6.1 per cent (4.4 per cent) over the same periods to reach \$203.1 billion in 2003. About 86.1 per cent of Canadian merchandise exports were bound for the U.S. in 2003, compared to 60.6 per cent with respect to imports. In fact, 47.6 per cent of all Canadian manufacturing production was exported to the U.S., up from 35.1 per cent in 1992. For a brief period in 1999,

Figure E-1

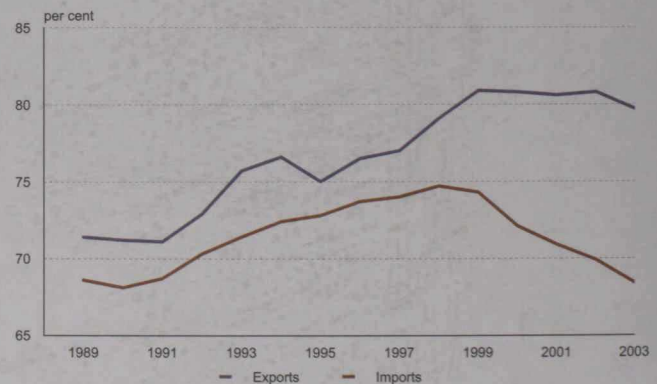
Canada-U.S. Trade in Goods and Services



Data: Statistics Canada, Balance of Payments

Figure E-2

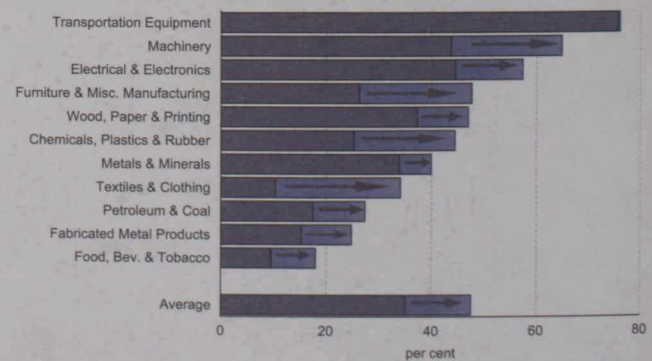
U.S. Share of Canada's Trade in Goods and Services



Data: Statistics Canada, Balance of Payments

Figure E-3

Exports to U.S. Share of Total Canadian Shipments\*



\* Domestic Exports / Shipments

Data: Statistics Canada