

Between Neighbours:

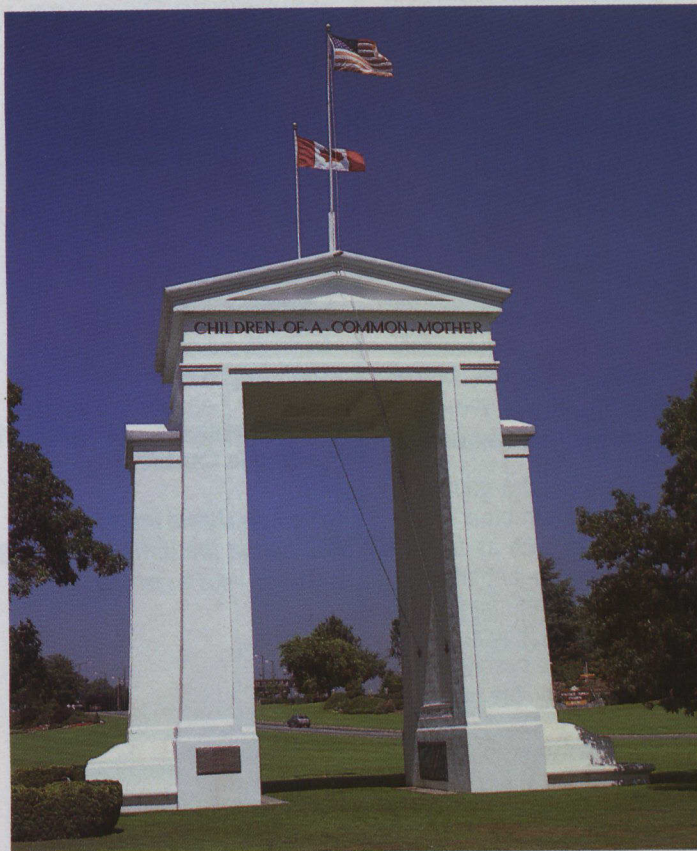
The Canada-U.S. Free Trade Agreement

On January 1, 1989, a truly historical event took place when the world's biggest trading partners — Canada and the United States — entered into a bilateral trade accord. The Canada-U.S. Free Trade Agreement (FTA) is acknowledged to be the largest and most comprehensive trade arrangement ever negotiated between sovereign nations. The FTA will, over the next 10 years, eliminate most of the trade barriers that currently exist between the two countries, including complete elimination of tariffs.

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"Canada is open for business," Prime Minister Brian Mulroney told a New York audience shortly after winning the election in November 1988, where he promoted free trade with the United States as the centrepiece of his government's economic strategy. "Even better," he told the audience of financiers, "the U.S. is now open for business for Canadian entrepreneurs. The combined market is worth \$5 trillion, richer than any other in the world."

A 315-page document, the bilateral agreement makes substantial progress on Canada's twin goals: it pro-



vides Canada with more secure access to the U.S. market and it increases the access in many areas.

"The benefits from this deal are immense," Canada's International Trade Minister John Crosbie told an audience of Canadian exporters after the agreement was ratified. "Canada has gained in the past from opening its economy to outside investment and outside technology. Now it's up to Canadian businesses to take advantage of their natural market just across the border. After that, they will be ready to take on the world."

International trade is Canada's lifeblood, as exports account for 30 per cent of national income. Since nearly three million Canadians work in

Peace arch at Canada-U.S. border.

industries that produce goods and services for export, securing and enhancing Canada's access to world markets is understandably a cornerstone of Canada's foreign policy. In this respect, the Canada-U.S. Free Trade Agreement is a significant step towards meeting Canada's goal of multilateral trade liberalization. The agreement does the following:

- enhances market access;
- creates effective machinery for resolving disputes;
- facilitates business travel;
- reduces trade-restricting regulation of services; and
- secures two-way investment flows.

Benefits beyond Borders

The FTA represents an important milestone in the development and growth of the Canadian economy. Trade liberalization has been a consistent element of Canadian economic policy throughout the postwar period. This commitment has been evident through Canada's participation as a founding member of the General Agreement on Tariffs and Trade (GATT), and through the negotiation with the U.S. of key sectoral trade arrangements such as the Auto Pact and Defence Production Sharing Arrangements.

Canada will emerge as an increasingly competitive supplier, a valuable and affluent market, and an attractive investment site for its trading partners throughout the world.

The new bilateral agreement, however, goes even further by effectively dismantling many of the remaining trade barriers with the United States without raising barriers to other countries. As well, it provides a model for future multilateral trade agreements, particularly in the area of trade in services.

Former President of the World Bank A.W. Claussen points to the FTA as proof that bilateral arrangements can produce what multilateral negotiations have been unable to achieve. "It reaches well beyond current GATT boundaries and provides an effective way of ending disputes," says

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