

## **1989 – Canada–United States Free Trade Agreement: Eliminating Barriers to Trade**

The idea of free trade with the United States had been around at least since Confederation, but it took more than a century to be fully realized. For decades, the United States has been Canada's largest trading partner. Yet there had been barriers to the free flow of goods and services.

In the late 1980s, there was a push to liberalize trade. Canada wanted improved and secure access to the U.S. market. The goal was to promote productivity, full employment and to encourage foreign direct investment. Canada also wanted to strengthen the competitiveness of Canadian firms in global markets and to ensure the steady improvement of living standards.

In May 1986, Canadian and U.S. governments began negotiating a trade agreement that touched off debate across Canada. Organized labour was concerned about job losses if businesses relocated to the United States or if they could not survive increased competition from U.S. firms. Businesses, on the other hand, wanted improved and secure access to the U.S. market. Canadian nationalists feared that increased economic integration would threaten Canadian culture and sovereignty.

By October 1987, the 20-chapter Canada–United States Free Trade Agreement (CUSFTA) was finalized. It was signed in 1988 and came into effect on January 1, 1989.

The CUSFTA included a schedule for the elimination of all tariffs on trade between Canada and the United States by January 1, 1998. It established a mutually beneficial framework for the fair and predictable treatment of investors. It also included rules governing trade in services.

The CUSFTA established the necessary institutional provisions to provide for the joint management of the agreement and to avoid and settle any dispute respecting the interpretation or application of any element of the agreement. Its dispute settlement mechanism promotes fairness, predictability and security by giving each partner an equal voice in resolving problems through ready access to objective panels.

Regarding trade remedy procedures, the CUSFTA established a dispute settlement mechanism that guaranteed the impartial application of each partner's anti-dumping and countervailing duty laws. Binational panels can review final determinations of dumping or subsidies.

The implementation of the CUSFTA generated some transitional employment losses in some sectors, but employment gains in others. The economies of both countries became more integrated. Canadian exports to the United States have increased, especially in goods such as telecommunications equipment, and in services such as financial services and consulting. There is now much more U.S. investment in Canada and vice versa.

The CUSFTA was the beginning of even larger regional trading blocs. After just five years, on January 1, 1994, the CUSFTA was replaced by the North American Free Trade Agreement (NAFTA), which includes Mexico

## **1994 – North American Free Trade Agreement (NAFTA): Creating the World’s Largest Free Trade Area**

Five years to the day after the Canada–United States Free Trade Agreement was implemented, an expanded free trade area was created with the implementation of the North American Free Trade Agreement (NAFTA), which includes Mexico. The NAFTA came into effect on January 1, 1994.

NAFTA created the largest free trade area in the world, covering at the time some 360 million people and nearly C\$500 billion in yearly trade and investment.

Many of the same issues raised in the CUSFTA debate surfaced again during NAFTA negotiations. Canadian businesses wanted Mexico to open up to them. Organized labour and workers feared Canadian businesses would relocate to Mexico to take advantage of lower labour costs and lower environmental standards. Canadian nationalists wanted assurances that Canadian sovereignty would be respected and that Canada could protect its culture, water resources, and standards on health, safety, labour and social programs. Some provinces worried about NAFTA’s effects on regional industries, such as British Columbia’s softwood lumber and Ontario’s car manufacturing.

NAFTA maintained the tariff elimination schedule established by the CUSFTA for the bilateral trade between the United States and Canada. Separate bilateral schedules were negotiated by both countries with Mexico for the elimination of tariffs.

The agreement also sets out rules in areas such as investment, services, intellectual property, government procurement, competition policy and temporary entry of business persons. As was the case in the CUSFTA, Canada made no commitments to liberalize trade in social services or cultural industries.

To promote the effective enforcement of each country’s labour and environmental laws and regulations, separate agreements were negotiated. The North American Agreement on Labour Cooperation was designed to facilitate greater co-operation between Canada, the United States and Mexico in this area. The North American Agreement on Environmental Cooperation allows each party to choose the level of environmental protection it considers appropriate. It makes clear that each country may adopt standards more stringent than international standards, but prohibits the lowering of environmental standards to attract investment.

NAFTA has had some clear effects on Canada’s economy. Canadian product exports to both Mexico and the United States roughly doubled between 1994 and 2000, from C\$1 billion to C\$2 billion to Mexico, and from C\$183 billion to C\$359 billion to the United States. NAFTA has made Canada more attractive to foreign and domestic investors.

### **USMCA - United States–Mexico–Canada Agreement**

On July 1, 2020, the new Canada-United States-Mexico Agreement (CUSMA) entered into force.

Signed on the margins of the G20 Leaders’ Summit in Buenos Aires in November 2018, CUSMA outcomes preserve key elements of the long-lasting trading relationship and incorporate new and

updated provisions that seek to address 21st-century trade issues and promote opportunities for the nearly half a billion people who call North America home.

In 1994, the United States, Mexico and Canada created the largest free trade region in the world with the North American Free Trade Agreement (NAFTA), generating economic growth and helping to raise the standard of living for the people of all three member countries. By strengthening the rules and procedures governing trade and investment, this agreement has proved to be a solid foundation for building Canada's prosperity and has set a valuable example of the benefits of trade liberalization for the rest of the world. The new Canada-United States-Mexico Agreement will serve to reinforce Canada's strong economic ties with the United States and Mexico.

- [Information for Importers](#)
- [Information for Exporters](#)
- [CUSMA and SMEs](#)

### Highlights

- Since 1994, NAFTA has generated economic growth and rising standards of living for the people of all three member countries.
- In 2019, total trilateral merchandise trade (the total of each country's imports from one another) reached just over USD \$1.1 trillion.
- Three-way merchandise trade has grown over 250 per cent since signing the trilateral trade agreement in 1994.

## Free Trade

### CUSFTA: Canada-United States Free Trade Agreement

- 1/ Why did Canada want Free Trade with the United States?
- 2/ What were organized labour's concerns?
- 3/ What were the Canadian Nationalist's concerns?
- 4/ List the items that were listed in the original CUSFTA agreement.
- 5/ What happens if there is a dispute over trade?

### NAFTA: North American Free Trade Agreement

- 6/ Why was CUSFA replaced by NAFTA?
- 7/ What were Canadian businesses' greatest fears?
- 8/ What does the North American Agreement on Labour Cooperation do?
- 9/ What has been the effect of NAFTA on the Canadian economy?