



such as softwood lumber which remains outside NAFTA and 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. It is estimated that Canada has witnessed the creation of close to 2.1 million jobs, representing an increase of 16% over pre-NAFTA employment levels. Canadian access to the US market reflecting a reduction in red tape, tariffs and more transparent rules, has tied the Canadian economy irrevocably along a north south line, becoming even more important than intra-Canadian east-west trade, which is hampered by provincial tariff barriers. Canada and the United States currently exchange nearly \$1.5 billion in goods and services each day.

Though less intense than US-Canada trade, two-way merchandise trade between Canada and Mexico has doubled since 1994 and reached \$14.1 billion in 2001. The NAFTA provides for virtually all tariffs to be eliminated on trade in originating goods between Canada and Mexico by January 1st 2003 in addition to a third round of accelerated tariff reductions which was implemented in January 2001. NAFTA seems to have accelerated not only US-Mexico trade, but also Canadian-Mexican trade flows. Ongoing market liberalization efforts in Mexico, particularly in the energy, banking, telecommunications and transportation sectors, continue to create opportunities for Canadian exporters. As the Mexican economy evolves and strengthens, its demand for US and Canadian goods and services will continue to increase.

EFFECTS ON THIRD COUNTRY TRADE

The classic model of regional integration economics as developed by Viner and others, generally argues that the welfare impact of such arrangements can be determined by examining whether they are net trade-creating or trade-diverting.⁴⁴⁸ If there is an increase of trade among members that exceeds the level of trade lost with non-members, then there is a net positive global economic welfare effect. If the level of lost trade with non-members exceeds the increase in trade among RTA members, then there is a net negative global welfare effect.⁴⁴⁹