



There are several factors which account for the growth in U.S. trade with Canada and Mexico, including greater U.S. direct investment abroad (USDIA), fluctuations in exchange rates, changes in industry manufacturing and distribution patterns, and the rising gross domestic product (GDP) in all three countries. U.S. GDP grew at an average annual rate of 5.7 percent to about \$10 trillion (current U.S. dollars) between 1990 and 2000. In comparison, Canadian GDP grew by 2.6 percent annually and Mexican GDP grew by 9.1 percent annually (both in current U.S. dollars). US investment with its NAFTA partners has increased in part because Canada and Mexico are proximate and receptive markets for USDIA. Intrafirm trade across national borders often increases when companies invest in branch plants, subsidiaries, or alliances in other countries.⁴⁴⁵

This trend in US foreign investment in Mexico mirrors Mexico's dramatic economic rise in the past 10 years. Mexico stands poised to overtake Canada in total GDP within the next decade. NAFTA, increased US FDI and further economic reforms in Mexico are transforming the Mexican economy. Such influences are stabilizing and enhancing the Mexican economic base. A U.S. Executive Branch Study emphasized the positive influences of the NAFTA in Mexico's relatively rapid recovery (in aggregate terms) from the effects of the Peso Crisis.⁴⁴⁶ After the 1982 financial crisis, it took 5 years for Mexican economic output to reach pre-crisis levels. Following the late-1994 Peso Crisis (in which output dropped more quickly), Mexican economic output reached pre-crisis levels in two years. Mexico's return to international capital markets was far more rapid following the 1994 crisis than following the 1982 crisis.⁴⁴⁷ A combination of NAFTA induced economic reform and more vigorous trade between Mexico and the USA, coupled with Japan's dramatic recession has thrust the Mexican state into the forefront of US trade and economic policy.

Like Mexico the Canadian experience within NAFTA appears to be positive though Canadian economic growth rates and productivity increases lag both Mexico and the United States. Canada's merchandise trade with the United States reached \$588.7 billion in 2001 or about 60 % of its total economic size. Since 1998 virtually all Canada-U.S. trade has been tariff-free with some notable exceptions