

3. ASSESSING THE IMPACT

At this stage, it is impossible to detect the economic impact of free trade. The FTA is being phased-in over ten years and its effects will only become manifest over the longer-term. As the December 18, 1989 Informetrica Study points out, "...lags in availability of reliable data, difficulties in isolating FTA from other effects on the economy, and the uncertain nature of results provided by models of behaviour, all point to great difficulties in developing any systematic evaluation of the effects of FTA on the economy.." (Page 7, Main Report). The FTA, along with other structural policy measures such as trade liberalization under the GATT and major tax reform, are contributing to economic change, and it is difficult at this early stage to assess FTA effects. "Early returns" on indicators such as the CPI, employment, trade performance, and GDP are not very conclusive. The Informetrica study identifies some meaningful indicators and data streams which can be analyzed in future years, however, as tariffs fall and rationalization proceeds.

The Department of Finance, for its part, stands by its initial FTA forecasts and assumptions regarding the longer-term impact of the FTA. These include, by 1993, an increase in real terms of business investment of more than 4 per cent, real output GDP growth of about 2 per cent, net job creation of 120,000 and a rise in Canadian exports by about 3.4 per cent in volume terms.

3.1 Assessment Criteria

Just as the Free Trade Agreement is a long-term initiative with a ten-year phase-in period, the economic benefits which will accrue are also long term, linked to the coming into play of the various aspects of the Agreement. At this first anniversary of the FTA, only a small proportion of proposed tariff reductions are in place, and preparatory work is continuing in the reduction of non-tariff barriers areas such as government procurement, temporary entry, services and agricultural technology. Not surprisingly, expert opinion within the federal government, the Economic Council of Canada and private think-tanks conclude that discernible and substantial FTA effects are still several years away. The long-term indicators, such as GDP growth, consumer price index, trade performance, job creation, and productivity measures will only become relevant after a number of years, as the impact of the FTA-induced reduction of tariff and non-tariff barriers becomes apparent.

3.2 Monitoring Activities

Given the importance of the Free Trade Agreement to Canada's future