

Aggregate economy effects

Overall, the impact of the proposed policies on the economy of Canadian regions (Table 8) are of a very small magnitude, as Canadian trade with the Rest of the World consist only a small percentage of total Canadian trade, and Canada-USA bilateral liberalization affects only two sectors, agriculture and food.

In *scenario 1a*, international imports increase in all three Canadian regions: from 2.06 percent in Ontario to 5.08 percent in Canada West. The smaller increase in total import flows (in parenthesis, in Table 8) ranging from 1.30 to 2.16 percent demonstrates the shift from West-East trade to North-South trade. As in the aggregate tariff protection towards international imports declines, there is deterioration in the terms of trade in all Canadian regions, particularly so with respect to its international trade partners. However, real revenue increases in all Canadian regions, leading to an increase in real consumer spending (welfare). The largest gains are witnessed in Canada West, with increases in real revenue and real spending of 0.12 to 0.09 percent respectively, or the equivalent of C\$ 879.48 million and C\$ 508.65 million.

The slight aggregate decline in output in Canada East is mostly due to a decline in domestic demand in three sectors in particular: food, textiles and clothing. These sectors contribute more to value added in Canada East than in Canada West and Ontario.

The U.S. economy, in the aggregate, is hardly impacted at all in this scenario as its external tariff towards the rest of the world is not affected and the impact of U.S.-Canada bilateral tariff has a negligible impact in the U.S. economy as a whole. However, because of the later, the impact on its terms of trade is positive rather than negative as in the Canadian case.

TABLE 8
Impact of a Canada-USA Customs Union on Aggregate Economic Variables
(Percentage change over the base case)

Scenario a: CET is set to USA MFN rates.

	Exports ^a	Imports ^a	Terms of Trade ^a	Output	Real Revenue	Welfare
Canada East	3.27 (1.53)	3.76 (1.48)	-0.27 (-0.17)	-0.01	0.10	0.08
Ontario	2.48 (1.42)	2.06 (1.30)	-0.21 (-0.18)	0.01	0.07	0.05
Canada West	2.94 (1.86)	5.08 (2.16)	-0.19 (-0.09)	0.01	0.12	0.09
USA	0.44	0.33	0.01	0.00	0.00	0.00
ROW	0.07	0.14	0.04	0.01	0.01	0.01

Scenario b: CET is set to the minimum of Canada-USA MFN rates.

Canada East	3.37 (1.60)	3.78 (1.49)	-0.37 (-0.23)	0.00	0.08	0.06
Ontario	2.56 (1.47)	2.07 (1.31)	-0.26 (-0.22)	0.02	0.05	0.03
Canada West	3.07 (1.97)	5.21 (2.22)	-0.27 (-0.14)	0.01	0.10	0.07
USA	0.84	0.50	-0.12	0.01	-0.01	-0.01
ROW	0.26	0.62	0.20	-0.01	0.05	0.06

^a For Canadian regions, numbers in bracket take into account interprovincial trade.