

The trade sector will benefit noticeably from the effects of deficit and debt reductions. The expected decline in real interest rates should spur investment spending, which is one of the keys to maintaining a country's international competitiveness. There is also some evidence that the real exchange rate will depreciate in the short and medium term, and provide a stimulus for net exports. To the extent that deficit reduction will eventually lead to a decline in the tax burden faced by Canadians, this will enhance the country's international competitiveness. The relationships between tax policy, relative international tax burdens, competitiveness and international trade and investment flows will be researched in some detail by the Economic and Trade Policy Division (CPE) in an upcoming Staff Paper.