

in the long term.

Proponents of an enhanced bilateral agreement also argue that there currently is a substantial danger that "protectionist" sentiments in the United States may lead to increased tariff and non-tariff restrictions on Canadian exports to that market. This implies there would be an even larger positive impact on the Canadian economy than would be true if present United States trade practices are continued. As well, it is argued that conclusion of an agreement with the United States will promote agreement for yet another round of multilateral trade enhancement under GATT auspices with general benefits to all economies.

Against these arguments, others fear that removal of Canadian trade barriers will lead to the outflow of United States subsidiary capital now located in Canada (or, will forestall United States and possibly other investment that would otherwise have occurred), so that beyond an import effect, there will also be a special reduction of investment (and scrapping of existing capital) located in Canada. It should also be recognized that removal of tariffs implies a notable reduction in federal government revenues, which implies a direct increase in that government's deficit. Finally, there also is considerable concern that Canadian sovereignty will be "unduly" compromised, it being argued that free trade of goods must necessarily be followed by a freer flow of labour between the countries, and closer coordination of fiscal, exchange rate, and monetary policies.

In this study, we assess the impact of removing both Canadian and United States tariff and non-tariff barriers staged over