ECONOMIC IMPACTS OF ENHANCED BILATERAL TRADE
NATIONAL AND PROVINCIAL RESULTS

Statement of Issues

Arguments for an enhancement of bilateral trade with the United States rest on three principal judgements:

* reduction of Canadian tariffs and non-tariff barriers should, by introducing a more competitive supply of goods and services and directly through removal of the indirect tax of customs duties, increase the real incomes of Canadian households, thereby increasing consumer demand, and ultimately, investment spending;
* reduction of United States tariffs and non-tariff barriers should improve the exportability of Canadian goods and services to the United States market, and possibly, provide higher incomes to those Canadian producers who export into already competitive markets. Also, increased economic activity in North America should spill over into improved economic conditions elsewhere in the world, improving thereby, Canadian export prospects to the rest of the world. Finally, reduced price levels in the United States should be reflected in lower Canadian import and domestic prices; and
* improved access to the United States market should allow Canadian producers to operate at larger scale, which implies a special, initial change to investment behaviour and prospects for more productive use of both capital and labour in the long term.

Proponents of an enhanced bilateral agreement also argue that there currently is a substantial danger that "protectionist" sentiment 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). Thus, beyond an import effect, there will be a special reduction of investment (and scrappage 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