
For Canadian exporters, preferential tariff treatment in the U.S. market will help them to compete more successfully in the United States with offshore competitors. In addition, the stimulus provided by the Agreement towards rationalization and improved competitiveness will allow Canadian industry to benefit from further worldwide trade liberalization as a result of the current round of Multilateral Trade Negotiations.

Currently, tariff and non-tariff barriers are higher in manufacturing than in other sectors in both Canada and the United States. Manufacturing should, therefore, have the most potential to realize benefits from trade liberalization through cost reductions and improved efficiency. It is evident from Table 3.10, which shows the average rates of tariff protection for manufacturing industries in Canada and the United States, that levels of protection vary substantially among industries. In Canada, tariff protection ranges up to 22.7 per cent in knitting mills. In the United States, the range of protection is approximately the same with a high of 20.7 per cent in Tobacco. It is interesting to note, however, that industries which are highly protected in Canada also tend to be highly protected in the United States. This suggests that the increased competition from the elimination of protection in these industries in Canada may be largely offset by the opening up of new opportunities for exports to the United States, particularly with respect to third country imports.

The Overall Effect

According to a number of studies, by the Department of Finance, the Economic

Council and various private sector organizations, such as Informetrica and the Conference Board, the net result of the Agreement will be positive since the benefits to firms adapting to and capitalizing on the opportunities flowing from the Agreement are expected to be greater than the potential costs which may be experienced by those firms which face more difficult adjustments. The Department of Finance estimates that the Agreement will result in an increase in real manufacturing output of over 10 per cent in the long run.

Implications for Adjustment

Free trade with the United States will be but one of the influences to which Canadian industries will need to respond over the next decade. Other important factors include the continuing globalization and growing interdependence of world markets as well as continuing and accelerating advances in technology. Canadian industries have responded positively to change in the past, including the significant liberalization of trade which has occurred over the past several decades.

The Agreement is designed in such a way as to ensure a continuation of the positive adjustment process through:

- the 10 year phase-in period;
- new safeguard provisions and dispute settlement mechanisms;
- grandfathering of existing policies in certain areas (services, investment, beer); and
- exemptions for certain industries (culture, agriculture marketing boards).