

employment increase in 2005 of 150,000), assuming enhanced bilateral trade occurs, that there are productivity gains of the kind we have assumed, that governments choose to compensate themselves for loss of customs duties, and that current United States trade practices are continued. If, however, this is compared to a world in which there is increased "protectionism" in the United States, and it is assumed that the Government of Canada chooses not to compensate itself for customs losses, our results suggest that real GNP in 2005 would be increased about 3.5 per cent and employment would be increased by 250,000.

In our framework, it is possible to conceive of even larger impacts. Freer trade will increase United States economic activity slightly, although we have assumed in this study that does not occur. Access to a larger market may enable the Bank of Canada to target on a "real" interest rate that would be even lower than otherwise would be the case, reducing the appreciation of the Canadian dollar. The ability of Canadian entrepreneurs to alter production methods and penetrate world markets (or beat importers in the Canadian market) may be more robust than we have concluded. And it is certainly possible that Canadian policy makers will be unable to move the economy to potential by the mid-1990s, in which event the real impacts would be larger than we have estimated. On the other hand, there could be a much weaker investment response, especially if monetary authorities fail to react positively, expansion of industries occurs in the United

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4/ BCNI, "Canadian Trade, Competitiveness and Sovereignty: The Prospect of New Trade Agreements With The United States", (Ottawa, August 3, 1985).