

of the Canadian economy. The authors estimate that border disruptions could affect up to 45 per cent of Canada's exports, 387,000 jobs and \$2.5 billion in investments.⁵¹

Perhaps the most worrisome potential impact is on international foreign investment. Foreign investors who might be considering Canada as a gateway to the North American market, would have to take into account the risk of less secure and more costly access to the United States. Concerns that a tighter border could result in sufficiently costly delays (and perhaps more importantly, raising uncertainty about the time and process for transiting goods across the border), would favour investment in the larger market, namely the United States. In this context, some of the gains from trade deriving from fragmentation across borders to take advantage of specialization in production might be reduced as "just-in-time" becomes "just-in-case." This would expand the existing degree of "home-bias" in both Canada and the United States, to the detriment of bilateral trade. At the same time, particularly in services, one cannot entirely discount the possibility that some FDI into Canada from the United States (or vice-versa) will increase simply to avoid having to deal with border issues. In other words, Mode 3—commercial presence—would become more favoured over other modes.⁵² Less likely, the latter effect (i.e., separate plants to

⁵¹ See Danielle Goldfarb and William B.P. Robson, "Risky Business: U.S. Border Security and the Threat to Canadian Exports", *The Border Papers*, C.D. Howe Institute, No. 177 (March 2003).

⁵² For a full discussion of services trade issues, including the various factors that bear on the choice of the mode of carrying out such trade, issues in the measurement of barriers to services trade, and an overview of Canada's services trade performance under the four alternative modes, see chapters 4 to 6 in John M. Curtis and Dan Ciuriak (Eds.) *Trade Policy Research 2002* (Ottawa: Department of Foreign Affairs and International Trade, 2002), respectively: Brian R. Copeland, "Benefits and costs of trade and investment liberalization in services: Implications from trade theory", pg 107-217; Ziqui Chen and Lawrence Schembri, "Measuring the Barriers to Trade in Services: Literature and Methodologies", pg 219-286; and Shenjie Chen "Trade and Investment in Canada's Services Sector: Performance and Prospects", pg 287-347.