

1 INTRODUCTION

1.1 Issues And Purpose Of The Study

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

1. 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.
2. 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.
3. 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

