3.4 Impacts Of Non-tariff Barriers

The tabulation on the following pages provides a summary of these effects. Joint removal of non-tariff barriers would have a more positive effect on real economic activity and employment than reduction of tariffs. Removal of barriers provides about one-half of the gains to real GNP registered in the combined case, and provides employment gains equivalent to those of the combined case. The initial gains from changed net exports are approximately equivalent to the effects of tariff reduction, but net exports are negatively affected over the longer term, reflecting both stronger positive effects on final demand and accelerating inflation.

There are generalized positive effects on industry output, including Canadian manufacture of non-durables, which are comparatively insensitive to such changes. The employment gains reflect this. An interesting consequence of this, however, is a reduction in the general unemployment rate of more than 0.5 per cent by the mid-1990s. In consequence of the tighter labour markets, unit labour costs rise compared to those of the base case, and inflation accelerates beyond that of the base case at the close of the 1990s. This indication of diminishing competitiveness leads to a particularly strong impact on imports, explaining the negative effect on net exports noted above.

Again, the impact on government balances follows the pattern of the combined case. And while the exchange rate appreciates initially, it begins to depreciate again in the late 1990s as inflation accelerates. This too contributes to the longer term negative impact on net exports.