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increased volume of their exports could easily offset any loss in their share of the domestic market due to the rise in imports. Second, the more highly protected industries often have the potential for substantially reducing production costs through specialization and longer production runs. Third, free trade will allow industries to buy their inputs more cheaply from both U.S. and domestic producers, and this will make them more competitive in both domestic and foreign markets. For industries in which price competition is intense, a small reduction in production costs can lead to large increases in sales, production and employment.

The view that most sectors will gain from bilateral trade liberalization is supported by other studies. For example, the Economic Council of Canada concludes: "In most industries ... the impact of bilateral free trade with the United States on output and employment would be positive and significant".<sup>(10)</sup> These empirical estimates are very much in line with the positive Canadian experience of the past 20 years in response to multilateral tariff reductions and the experience in the North American auto industry in response to the 1965 Auto Pact.

*(c) Regional Effects*

All Canadian regions will gain as a result of bilateral free trade, and empirical estimates indicate that the distribution of these economic gains will be very even across the country. This is evident in Table 6 which presents Department of Finance estimates of the regional real income gains

from the Canada-U.S. Free Trade Agreement. Moreover, quantitative estimates of the regional economic benefits of the Free Trade Agreement are conservative since all of the positive impacts of the Agreement cannot be quantified. Importantly, the quantitative estimates of the gains to resource-intensive regions are likely understated because the Agreement, by providing more secure access to U.S. markets, will reduce the risks of U.S. protectionism, which in the past has been felt most heavily in these regions. As well, given their proximity to large consumer markets in the United States, the Agreement should allow these regions to reinforce and diversify their manufacturing bases.

The Agreement offers a significant opportunity to increase the value-added of many of Atlantic Canada's resource-based products and to reinforce the development of its secondary manufacturing and service sectors. In particular, the fish processing and resource processing industries will have better opportunities for exporting more highly processed products with the elimination of the U.S. tariffs, which rise with the degree of processing.

In British Columbia, tariff reductions will make mineral exports more competitive in the U.S. market. These reductions will also increase the scope for further processing of minerals and other resource-based prod-