

be intensified if overall wage levels in Canada rose relative to U.S. wages during the adjustment to freer trade.

In fact, the pattern of hourly compensation costs in Canadian manufacturing is remarkably similar to the pattern in the United States, as is evident in Table 1. The two industries with relative compensation costs significantly higher in Canada than in the United States are wood and paper products. Both these industries already have a strong export orientation and wages in these industries are unlikely to come under pressure as a result of freer bilateral trade. If the Gibbons bill were passed, the potential application of U.S. countervailing duties would pose a much more severe threat to the wage levels in these industries than would an FTA.

Among industries with high import barriers, only the textile industry has higher relative wages in Canada. Most Canadian industries with high import barriers have relative compensation levels similar to or lower than their U.S. counterparts. Thus, compensation levels in particular Canadian industries are unlikely to come under pressure as a result of freer bilateral trade.

#### Policy Areas Where Economic Pressures Could Increase Substantially

In highly regulated sectors where domestic policies are intertwined with trade barriers, economic pressures for policy harmonization would increase substantially if those sectors are subject to all provisions of an FTA. Two prominent examples are agricultural and cultural support policies. Because economic pressures could be substantial in these sectors, some will press for full or partial exclusion of these sectors from a bilateral trade agreement.