The dynamic model used in the context of the Canada-Japan Joint Study uses the GTAP 6 database and has been aggregated to provide maximum sectoral consistency with the sectoral aggregation scheme in Section 6.2.1. However, due to the computational complexities encountered in dynamic models, the regional aggregation consists of four regions: Canada, Japan, the United States, and the rest of the world.

The model results indicate that 80% of the adjustment takes place within the first 20 years following liberalization. The precise adjustment path will depend on the type of economic indicator and the circumstances particular to individual countries.

### 6.2.2(a) Canada's Adjustment Path

Trade liberalization is expected to increase household income. As households adjust their consumption spending accordingly, 40% of the total increase in Canadian real consumer spending is expected to occur in the first 10 years post-liberalization. By the end of the second 10-year period, 80% of the long-term adjustment will have been completed.

Similarly, responding to the expectation of increased economic growth, firms respond to trade liberalization by increasing investment. Indeed, in the initial 10-year period, investment overshoots its longer-run equilibrium response, leading to a rapid adjustment of the overall capital stock to the new long equilibrium.

Canadian imports adjust faster than exports; in fact, imports overshoot their longer-run equilibrium in the first period. Imports changes depend on changes in aggregate domestic demand. As Canadian households expect an increase in their real income following an FTA, they increase consumption, and in particular, consumption of imported goods, immediately through inter-temporal substitution. Although there is an increased demand for Canadian exports, and in particular exports of Canadian agricultural goods, extra capital needs to be allo-