

Council of Canada to undertake a detailed empirical study of the first seven years, which established major positive impacts on the auto sector and the economy.

No doubt a similar study will be performed within the next ten years, with the objective of determining the impacts of the FTA on the overall economy. But what about the period between then and now?

The FTA is principally an agreement concerning trade in goods and selected services between Canada and the United States. Most of the goods on which tariffs existed prior to the FTA are manufactured goods. This implies that the initial focus should be on trade data and the manufacturing sector.

There are also provisions dealing with direct investment by Canadians in the United States and U.S. entities in Canada. The spirit of these changes is passive, essentially ensuring that future barriers will not be erected. Whether there will be a discernible effect on direct investment flows in the near future is uncertain.

In monitoring the FTA, the advice is simple - start looking where you expect to see the direct effects. Trade flows, the manufacturing sector, and direct investment are good starting points.

This strategy is also likely to be useful in the early years of the Agreement, since cumulative influences will not be evident, and induced effects on other parts of the economy will be difficult to identify.

The challenge will be to see "the trends through the clouds". The problem is depicted in Figure 1, in which the "clouds" represent the effects of other policies, fluctuations in the Canadian and global economies, and other sources of "noise". A specific change in a particular industry or trade category may be evident much earlier (Case A), than a more aggregative sectoral or macroeconomic effect (Case B). It is also possible that some impacts will remain "clouded" for many years (Case C).

