

as well as new trade and business enthusiasm spurred by the announcement of an FTA. Furthermore, the greater certainty about market access by setting disciplines on non-tariff barriers to trade in goods and services, investment, the movement of business persons and others would reduce the perceived risk and encourage investment and trade. An FTA would also have the effect of encouraging firms to deepen the bilateral economic relationship to take advantage of the greater potential derived from the agreement.

Third, the results can be quite sensitive to the model's structure, level of aggregation of sectors and regions, omitted factors, estimates of key parameters, and the assumptions implicit in the design of the simulation. There are a number of important caveats that should be borne in mind when considering the results reported in this study. For example, the level of aggregation for some of the data used in the model combines products that would not be expected to undergo similar economic adjustments from trade liberalization, which may result in either understatements or overstatements of the sectoral trade impacts. As well, the 2001 base year of the model does not account for the rapid changes in global trade patterns and tariffs in recent years, such as China's accession to the WTO, so the estimates may not be consistent with actual protection levels subject to elimination by a Canada-Japan agreement. Another concern is that the model does not account for the high degree of integration in North American commodity markets, which prevents significant differences in pricing between Canadian and U.S.-produced commodities. As such, any gains to the terms of trade will generate a production response from North America, rather than just Canada, which will tend to overstate the production impacts in Canada while understating the positive impacts in the United States.

Taking these various considerations into account, the macroeconomic impacts reported below should be considered as broadly indicative of the potential for significant economic