

Introduction

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International trade is Canada's life-blood. Traded goods represent the equivalent of more than half of Canada's gross domestic product (GDP). Nearly three million Canadians work in industries that produce goods and services for export. Securing and enhancing Canada's access to world markets, and to the U.S. market in particular, must therefore be a vital element of the government's agenda for economic renewal.

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Since it became a signatory of the General Agreement on Tariffs and Trade (GATT) in 1947, Canada has been committed to a policy of trade liberalization. After several rounds of tariff cuts under the GATT, average Canadian tariffs have been halved from the levels that existed in 1945. Canadians have responded readily to these opportunities and, as a result, Canada has reaped permanent and significant economic benefits. The economy has grown stronger and more dynamic. Real incomes have increased. Consumers can find a greater range of products at lower prices.

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The United States is by far Canada's most important trading partner. It is also the fastest-growing market for Canadian exports. In 1961, roughly half of Canadian exports went to the United States, a share which rose to two-thirds in 1971 and to three-quarters in 1986. The U.S. market is even more important for manufactured goods, purchasing 90 per cent of Canada's manufactured exports in 1986. Yet Canada's access to the U.S. market could be endangered at any time by U.S. protectionist measures. The importance of more

secure access to a large, high-income market and the historic links between the U.S. market and the Canadian economy underlie the economic rationale and the potential for economic benefits of seeking more liberalized and secure trading arrangements with the United States.

The Canada-United States Free Trade Agreement is a significant further step toward Canada's objective of multilateral trade liberalization. The Agreement will:

- eliminate all tariffs between Canada and the United States;
- reduce non-tariff barriers to trade in goods and services;
- liberalize investment flows between the two countries; and,
- establish effective and impartial procedures for the resolution of trade disputes.

Chapter II briefly discusses other experiences with freer trade, and reviews the nature and sources of the economic gains from trade liberalization. The economic benefits from trade liberalization with the United States will be extensive. Previous experiences with trade liberalization, such as the European Economic Community (EEC), the European Free Trade Association (EFTA) and the Canada-U.S. Auto Pact, provide convincing proof of this.

While successive rounds of multilateral and bilateral trade agreements have brought large reductions in tariffs between Canada and the United States, a significant number of trade barriers remain. Chapter III provides