

case of Canada West. Ontario's imports from the USA increase by less, at 53.55 percent.

**TABLE 10**  
**Impact of Elimination of all UTCs between Canada-USA on Bilateral Trade Flows**  
 (Percentage change over the base case)

Exporters	Importers				
	Canada East	Ontario	Canada West	USA	ROW
Canada East	-14.00	-16.30	-19.90	62.15	-1.94
Ontario	-16.60	-18.10	-23.50	48.62	-4.66
Canada West	-9.59	-13.20	-15.20	72.84	0.19
USA	152.30	53.55	162.80	-1.16	-0.88
ROW	-6.82	-7.33	-13.80	0.15	0.07

The lowering of costs of doing business with the USA results in some degree of trade diversion. For example, Canada West's imports from the Rest of the World decrease by 13.80 percent in this simulation. By the same token, aggregate imports from the Rest of the World decrease in Canada East and Ontario. As expected, the rise in Canada-USA trade is also accompanied by a significant decline in intra-regional trade within Canada.

#### Sectoral trade effects

Sectoral trade effects are very impressive, in particular with regards to imports (Tables 11a and 11b). Thus, international imports in Canada West will increase by 200 percent or more in the sectors of agriculture, petroleum, communications and financial services. Increases in international exports, though of smaller magnitude, exceed 80 percent in the food sector and range between 95.33 to 110.50 percent in wholesale trade.

In the U.S., increases in trade volumes are of smaller magnitude. The largest increases in terms of imports are in the sectors of mining and wholesale trade, by 29.48 and 33.88 percent, respectively. U.S. exports of financial services increase by 83.86 percent, while agricultural exports increase by 41.05 percent.

#### Aggregate economy effects

As expected, the economic impact of the elimination of UTCs in the economy as a whole are of an impressive magnitude (Table 12). Given the large volume of Canadian exports to the USA, the elimination of UTCs leads to a slight improvement in the terms of trade of two out of three Canadian regions. Real revenue increases in all Canadian regions by 6.01 percent to 7.29 percent. Consequently, real consumer spending rises by as high as 7.15 percent in the case of Ontario. The U.S. will also experience positive gains in terms of increases in real output, real revenue and real consumer spending, but the size of these gains are comparatively very small. As expected, the Rest of the World will be negatively impacted from "freer" trade between Canada and the USA.