(b) Sectoral Effects

How the performance of a particular sector or industry will be affected by free trade depends on a number of factors. These factors include, in addition to the current rate of trade protection provided in both countries, the cost reduction achievable in each industry through economies of scale, the potential cost reduction through the purchase of cheaper imported or domestically produced intermediate goods, the sensitivity of imports and exports to price changes, the export orientation of the industry, the share of imports in domestic demand, the importance of trade with third countries and the competitiveness, entrepreneurship and dynamism in that industry. In short, free trade presents very positive opportunities for most sectors and industries in the Canadian economy to expand and prosper. It does not assure economic gains; realizing the gain depends on the responses of individual Canadians and businesses to these new opportunities.

A number of detailed sectoral assessments have been prepared by various government departments on the economic impacts of the Free Trade Agreement and will be released shortly. These sectoral assessments will include, among others, agriculture, energy, metals and minerals, fisheries, and general industries. At the more aggregate level, analysis undertaken at the Department of Finance with inputs from industry specialists, both within and outside the government, indicates that outputs of various Canadian sectors will rise significantly as a result of the Free Trade Agreement.

Table 4 provides estimates of the increases in output for broadly defined industrial sectors that will result from the Agreement once it is fully implemented. In the manufacturing sector, output should expand by as much as 10.6 per cent. Output will be higher in the primary goods sector by 2.1 per cent, and in the service sector by 0.9 per cent. This difference in sectoral impacts reflects in part the greater scope for realizing economies of scale in the manufacturing sector. The estimated impacts on the primary and service sectors are relatively small because economic models do not properly capture the effects of reducing uncertainty of access to the U.S. market and the favourable effects of liberalizing trade in services.

The Department of Finance analysis suggests that most Canadian industries – industries that receive little trade protection now as well as those that are more highly protected – will expand production and sales as a result of free trade with the United States. There are a number of reasons for this conclusion. First, industries which receive relatively high protection in Canada also tend to be highly protected in the United States. Thus, the removal of trade barriers will expose these industries to greater competition from imports in the domestic market but it will at the same time provide new opportunities for these industries to export into the U.S. market. Given the relative size of the two economies, the