

II. PATTERNS OF TRADE AND INVESTMENT BETWEEN CANADA AND THE EUROPEAN UNION

TRADE

Why Liberalize Trade?

TRADING LIBERALIZATION AMONG COUNTRIES allows for more efficient use of domestic productive resources as each country increases production of those tradeable goods and services in which it has a comparative advantage. The reduction or elimination of trade barriers encourages countries to produce and export goods and services that are relatively less costly to produce at home, and to import those that are relatively expensive to produce domestically.

Eliminating trade barriers also favours consumers by lowering prices of both imported goods and domestically-produced consumer goods that compete with them. Further reductions in consumer prices are also possible due to lower costs for intermediate goods. Consumers also benefit from more direct competition between domestically produced goods and imports; as well, they face a wider choice of variety of goods and services available for purchase and consumption.

Greater exposure to competition and international opportunities also encourages price flexibility and faster response to market changes among firms. A more competitive environment also encourages innovation in business operations and stimulates investment in research and development of new processes and technologies: these, in turn, can be expected to raise the expected returns and profitability of competitive firms over the longer term.

Finally, barriers to trade make access to foreign markets uncertain. By clarifying trade rules, free trade agreements increase transparency, reduce uncertainty, and make it easier for firms to exploit trade opportunities.