

in our graphics) illustrates this in Table 1. Increased investment is the early "engine" of trade-related benefits. A sharp drop in nominal interest rates, reduced costs of materials and equipment required to meet investment demand, increased real output, and our assumption that there would be extra-normal investment in secondary manufacturing combine to provide the especially strong investor reaction. In contrast, increased consumer spending is moderate initially, reflecting the impact of the personal income tax surcharge and reduced household interest income from the sharp fall in interest rates. The moderate impact on consumer spending mitigates the increased demands on imports, and there is an initial positive effect on net exports.

Over the longer term, increased consumer demand accounts for more than one-half of increased total expenditures. This reflects the dynamic effects of continued increases in real incomes, which in later years, are generated partly by restored interest incomes. The change in investment nevertheless constitutes one-third of the total change in expenditures in later years. The long term erosion of net exports reflects increasing payments abroad of interest and dividend payments that would follow from foreign borrowing to fund the initial surge in investment. It should be noted that the economy is nevertheless made more "open". In 2005, exports constitute 31.2 per cent of Gross National Product in the base case; with "full enhancement", this share rises to 32.3 per cent.

Table 2

Contribution of Sectors to Total Output Change,
Impact of "Full Enhancement" Relative to Base Case,
Selected Years
(per cent of total)

	1985 <u>2/</u>	1992	1997	2005
Agriculture	2.6	2.1	2.4	1.9
Fisheries	0.1	1.7	1.5	1.1
Forestry	0.7	0.7	0.4	0.3
Mining	2.8	4.7	4.1	4.0
Manufacturing	21.4	42.2	34.9	40.0
Utilities	3.5	2.3	2.6	2.2
Construction	5.1	6.8	4.6	3.9
Transport, Storage, Communications	10.7	12.1	12.2	11.4
Trade	12.4	13.0	15.7	14.9
Finance, Insurance, Real Estate	9.2	2.8	3.8	5.3
Services	20.4	7.2	11.0	9.2
Housing	4.3	0.2	0.6	0.3
Public Administration	6.8	4.1	6.3	5.5

The case that combines all elements of trade enhancement