
for Canada's manufacturing industries, absorbing 90.5 per cent of Canadian manufactured exports in 1986 compared to 86.5 per cent in 1971. The importance of the U.S. market to Canadian manufacturers reflects a number of factors, including lower bilateral trade barriers than vis-à-vis other countries and geographical proximity which makes it less costly for both countries to transport goods across the Canada-U.S. border rather than to import them from third countries.

Table 1 provides information on the evolution of Canadian trade in manufactured goods over the 1966 to 1984 period. With the substantial decline in trade barriers in the postwar period, there have been significant increases in the degree of specialization of the Canadian manufacturing sector. This has resulted in both higher propensity to export and higher propensity to import in all major manufacturing industries. Over all, the export orientation of Canadian manufacturing industries nearly doubled from 18.8 per cent in 1966 to almost 36 per cent in 1984 while the import penetration of the Canadian market for manufactured goods rose from 21.0 per cent to 35.8 per cent over the same period.

The C.D. Howe Institute summarized Canada's experience in responding to trade liberalization as follows: "As trade barriers have been reduced, both our exports and imports have increased in virtually all sectors.... Whole industries have not disappeared in either country. Instead, each industry has specialized in particular niches so that trade has increased in each direction, in each industry."⁽⁶⁾ The transportation equipment (including autos) and machinery industries provide the clearest examples of

increased intra-industry specialization, as both the export orientation and the import penetration of these industries have risen substantially over time.

The performance of the auto sector after the introduction of the Auto Pact in 1965 provides the best Canadian example of the economic benefits arising from freer trade. The share of automotive products in total Canadian merchandise exports increased from 4.1 per cent in 1965 to 28.4 per cent in 1986; simultaneously, the share of automotive products in total merchandise imports rose from 13 per cent to 29.9 per cent during that period. Freer trade also had a positive impact on productivity in the auto sector. While labour productivity alone does not tell the whole story, in the 10 years following the Auto Pact real output per person-hour increased almost 7 per cent per year in the auto sector compared to about 3 per cent per year in the rest of the manufacturing sector. Employment in the Canadian auto sector also flourished, growing by 35 per cent during the first 10 years of the Auto Pact, almost three times faster than the 13-per-cent growth in employment registered in other manufacturing industries.

While the United States also gained from the rationalization of its automotive industry, Canadian productivity gains in the auto sector were almost three times as large as those of the United States over the 10-year period following the Auto Pact. This demonstrates how beneficial trade liberalization can be for a smaller country as it

⁽⁶⁾ R.G. Lipsey and M.G. Smith, C.D. Howe Institute, *Canada's Trade Options in a Turbulent World*, 1985, p. 109.