The economic modeling analysis suggests the following: (1) elimination of all tariffs between Canada and Japan would benefit both countries in terms of income and production, (2) the impacts of liberalization would vary across sectors in terms of increases and decreases, and (3) preferential trade liberalization between Canada and Japan may have adverse trade diversion effects on the economies of third countries, such as the United States, while trade between Canada and Japan would increase.

While these results generally conform with expectations, given the opportunities for gains to be made through liberalized trade between Canada and Japan, caution is required with regard to the interpretation of specific estimates generated in this simulation.

First, the scope of the modelling exercise is restricted to the elimination of tariffs on goods. Yet, modern FTAs also contain other provisions such as on trade in services, investment, customs cooperation and other areas of cooperation as well as trade facilitation, that address non-tariff barriers to trade that would yield benefits for business. These various measures can work to expand bilateral commerce in various ways. For example, complementarities between investment and services liberalization in the context of an FTA and goods trade can lead to a stronger response of goods trade to an agreement than tariff considerations alone would indicate. However, these types of provisions are not captured by the economic modelling analysis.

Second, computable general equilibrium (CGE) models may underestimate expansion of two-way trade in differentiated products and firm-level export gains even in sectors in which a country experiences net import gains, as these models do not capture certain types of gains that come from the expansion of the range of products traded as a response to trade liberalization,

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the probable effect of bilateral trade liberalization between Canada and Japan and the magnitude and direction of such impacts.