

National Results

As Figure 1 illustrates, our results suggest there would be positive effects on real Gross National Product from all dimensions of trade enhancement. The contribution of each element of the program to overall results would vary over time, however. The impact of tariff elimination would be comparatively small as the reduction of Canadian tariffs is large compared to those of the United States. In contrast, the reduction of United States non-tariff barriers is comparatively large, providing notable benefits to Canadian economic activity through to the mid-1990s. The erosion of this positive impact thereafter reflects an acceleration of Canadian inflation that follows from the tightening of labour markets in the later years of the impact. If operation of plants at a larger scale yields increased labour productivity, this would relieve the later pressure on labour markets, and the case that includes reductions of tariffs and non-tariff barriers, and such improved productivity provides the largest, and growing, positive effect on GNP. As the figure illustrates, Canadian economic activity would be reduced if the United States pursues more protectionist policies; the beneficial effects of trade enhancement are increased accordingly. In this instance, real GNP in 2005 is 3.3 per cent larger than that of the "protectionist" case.

Table 1

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

	1985 <u>1/</u>	1992	1997	2005
Personal Consumption	61	20	56	51
Business Investment	18	45	31	32
Government Expenditures	20	9	13	11
Change in Inventories	0	14	-2	5
Net Exports	1	12	2	1
Exports	30	56	63	73
(-) Imports	29	44	61	72

We anticipate that the contribution of the components of final demand to the overall positive impacts will vary over time as well. Comparison of our base case with the one that includes elimination of tariffs and non-tariff barriers and includes our assumptions of accelerated productivity (the "Full Enhancement" case

1/ Share of levels in 1985.