Bilateral trade effects

The results of the simulations are reported in terms of the impact of the hypothetical policy change. In ***scenario 1a,*** Canadian tariffs imposed on imports from the Rest of the World decrease in all sectors but those of agriculture, non-metal mineral and non-electrical machinery whose tariff protection to the contrary increases. These changes lead to an overall larger inflow of Canadian importations from the Rest of the World (see Table 4). Thus, Ontario's imports from this region increase by 4.08 percent and Canada's East by 5.55 percent. Though there will be some diversion of imports from the U.S. to imports from the Rest of the World following the CET, the later will be overcompensated by an increase in trade between Canada and the U.S. following the bilateral tariff elimination in the agricultural and food sectors, leading to an overall increase of imports from the U.S. Thus, Ontario's imports from the U.S. increase by 1.47 percent while those from Canada's West increase by 5.01 percent[37]. As expected, some of the increase in international trade is trade diverted from Canadian regions: trade between Canadian regions decreases across Canada.

A CET does not affect tariff levels imposed on U.S. imports from the Rest of the World. However, the Canada-U.S. bilateral tariff elimination leads to an increase of U.S. demand for Canadian goods, ranging from 2.61 to 3.66 percent. This will happen at the expense of imports from the Rest of the World, which decrease by 0.22 percent.

Results in ***scenario 1b*** are similar to those of ***scenario 1a,*** as in most cases the U.S. external tariff is indeed the minimum of the current Canadian and U.S. external tariffs. The only substantial policy differences among the two scenarios are relevant to the agricultural sector. Under a CET in this scenario, tariff protection of this sector towards the Rest the World remains unchanged in Canada and decreases in the U.S. In the aggregate, this leads to slightly larger increases in imports from the Rest of the World for most Canadian regions, and only a slight decrease in U.S. imports from that region.

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[37] We break down scenario 1 into its components: a) a CET and b) CAN-US zero bilateral tariff. These tables are not presented in this paper, but are available from the authors upon request.