were much higher than their respective medians thus indicating the existence of "hard-core" unemployed who recorded unemployment spells of two years or more. The surveys also found that more than two thirds of the workers who found new jobs, did so in other industries or economic sectors, thus indicating a fairly high degree of labour mobility.

In sum, a major empirical analysis of Canadian industry reaction to the most recent tariff cuts shows none of the effects predicted by the "deindustrialization" agrument. Although Canadian imports increased, so did exports. No industry experienced major declines. Observed firm behaviour suggests the bulk of the adjustment process was undertaken by Canadian firms and that the main instrument of change was the rate in which new firms entered a particular industry rather than the rate of firm exit by disinvestment or scrapping. The implication of relatively mild employment dislocation suggested by the adjustment process was validated to a large extent by the result of surveys measuring the length of unemployment for displaced workers in three import sensitive manufacturing industries.

These conclusions have been supported by a growing body of academic studies dealing with the nature of the adjustment process. They show that trade liberalization, through the operations of scale economies and product differentiation, results in increased production, productivity and competitiveness in the manufacturing sector. Import competition provides the catalyst for firms to adjust their production techniques and activities; free access to the larger US market allows them to exploit scale economies, hence improving productivity and cost competitiveness. Although some industries will contract (but by no means disappear) when exposed to US competition, and there will be short term dislocation, there are no grounds to predict a massive collapse of Canadian manufacturing once trade barriers are removed.

The implications of this scenario for investment flows into the manufacturing sector are quite evident; adjustments arising from trade liberalization will result in somewhat increased capital expenditures in industries having comparative advantage over its U.S. counterparts and in somewhat reduced expenditures or disinvestment on those having comparative disadvantages as rationalization occurs. There will be no massive changes in either the magnitude or the destination of new investment, but rather a gradual shift of resources among firms within a industry and among industries as they react to changes in the competitive environment.

<u>Resource extraction and processing industries</u> - There are relatively few bilateral barriers to trade in this sector, most of them concentrated in higher value-added products. Adjustments on this sector willprobably involve an expansion of processing facilities in Canada, since Canadian producers have a competitive advantage in natural resources with respect to their American counterparts, and are already world competitors. In addition, removal of US trade barriers on Canadian exports would provide natural resource producers and processors with a competitive advantage on the US market in relation to offshore producers and procesors. It must be pointed out, however, that depressed commodity markets