

3.1 Trade Flows

3.1.1 Expected Effects -

For specific commodities, Canadian tariff reductions should lead to increased imports from the United States, along with a reduction in imports from the rest-of-world. U.S. tariff reductions should lead to increased imports from Canada (increase in exports to the U.S.) and a possible reduction in U.S. imports from the rest-of-world.

With both sets of tariff changes in place, it is possible that both exports and imports for the same commodity group will increase. This would be the case if there is rationalization or specialization in products within the commodity group.

The removal of non-tariff barriers and the reduction in the threat of contingent protection should increase Canadian exports to the U.S., including commodities that were not subject to tariffs in the U.S. To the extent that U.S. market access to Canada has been improved at the same time, U.S. exports to Canada would increase.

3.1.2 Interview Opinions -

The expectation is for more "openness" of the Canadian economy, with increased Canadian exports and imports, reflecting the tariff changes as well as rationalization and specialization by Canadian firms. It should not be presumed that the FTA effects only started in 1989; market access in 1986-88 may have been enhanced by the fact that negotiations were underway.

Very rapid import penetration is a concern. Monitoring of detailed trade flows for areas where trends might require "emergency action" is considered desirable. A special watch is warranted for areas where there are big direct, tariff or NTB shocks (e.g., white goods, shoes, after-market auto parts, furniture).

A monitoring system should include the industry "context", with export orientation, import penetration, value-added attributable to international trade, etc.

There is also a "story" to be told about "what is not happening". Canada avoided the application of "voluntary export restraints" (VERs) in steel. This is one example of improved market access.

There is still lots of room for disagreement between Canada and the U.S. When disputes appear they should be "cataloged", with the amounts involved. A current list should be available. The business view is that we need a system to monitor whether there is an improvement in the security of access to the U.S. market.

Concerns about trade in specific areas were noted during the interviews, even though this was not the purpose of the discussions. They are summarized here, since they illustrate some of the additional