

mostly in terms of a significant increase in trade activity. Our results also capture the differential impact of these policies on Canadian regions and the trade-off between international and inter-Canadian trade. However, our model does not capture the gains that would result from the elimination of the NAFTA provisions of rules of origin.

In combination with econometric "gravity" results, we have used our CGE model to calibrate "unobserved" trade costs between Canada and the U.S., and subsequently assessed the impact of elimination of these costs following the adoption of ambitious economic integration/union policies. The impact of such a hypothetical policy scenario is substantive for all Canadian regions in terms of increased trade flows, and positive gains in real revenue, output, and real consumer spending. One may want to interpret these substantive results as an upper bound to "deep" integration between Canada and the U.S. as the border effect detected by gravity models is assumed to be fully due to unobserved trade costs.