GDP

declines in overall consumer prices will occur over the balance of the transition period as the remaining tariffs and non-tariff barriers are eliminated.

The Free Trade Agreement will stimulate investment spending as firms restructure and retool their factories to take advantage of their improved access to the large U.S. market. Improved business confidence, declining prices of intermediate inputs due to lower trade barriers, and rising corporate profits will also provide a further boost to capital spending. Department of Finance estimates suggest that business investment in plant and equipment will likely rise by more than 4 per cent in real terms by 1993 in response to the new trading environment.

5 business investment

The Agreement will lead to a substantial improvement in Canada's export performance. To begin with, reduced trade barriers in the United States will increase U.S. demand for Canadian goods and services. Furthermore, the Agreement will reduce production costs in Canada, making Canadian industries more competitive. This will happen as the prices of intermediate goods imported from the United States fall, as competition increases and as productivity is enhanced due to larger production runs and better resource allocation. The combination of these favourable factors is estimated to raise Canadian exports in volume terms about 3.4 per cent by 1993.

4 exports

These favourable impacts of the trade agreement on real personal incomes, profits, consumer spending, investment and exports will translate into a faster pace of output growth and job creation in Canada. Department of Finance estimates indicate that real output (GDP) in 1993 will be about 2 per cent higher as a result of the Agreement, and 120,000 net new jobs will also be created by 1993, the fifth year of the implementation of the Free Trade Agreement.

6

Studies undertaken in the summer and fall of 1987 by the Economic Council of Canada, Informetrica and Wharton Econometrics arrive at the same conclusion: Canada-U.S. free trade will generate substantial economic benefits, with more output growth and more jobs, both during the transition phase and beyond. For example, Informetrica's analysis shows that Canada-U.S. free trade will create as many as 200,000 jobs when the Agreement is fully implemented. The Economic Council of Canada has estimated that 350,000 jobs will be created by the eighth year after the total elimination of Canada-U.S. trade barriers. Wharton Econometrics has projected that Canada-U.S. free trade would generate 240,000 jobs 13 years after the full elimination of all bilateral trade barriers.[11]

These employment estimates are not inconsistent with those of the Department of Finance. They are not strictly comparable, however, as they are based on different assumptions about the Free Trade Agreement and the speed of its implementation. In particular, these studies estimate the number of job gains in the period after the full phasing out of existing trade barriers. In contrast, the Department of Finance employment estimates are for 1993, the fifth year of the phasing out of trade barriers under the 10-year transition period in the Agreement.

[11] Sources for these estimates are provided in Table 5.