

each case. Changes in real income and welfare also vary in the expected direction, offering a minimum and a maximum bound to the base case scenario. Finally, Table 14 illustrates the impact of a variation of the elasticity of substitution relative to the value of the unobserved trade costs.

TABLE 14
Sensitivity Analysis of Calibrated Unobserved Trade Costs (UTCs)

	Elasticity Substitution Parameters Decrease by 25%		Elasticity Substitution Parameters Increase by 25%	
	Calibrated UTCs, in percent.			
	USA	Canada	USA	Canada
Agriculture and Forestry	9.85	35.44	7.93	17.52
Food, Beverages and Tobacco	7.70	31.72	6.81	15.19
Textiles	4.71	18.03	4.46	8.11
Clothing	1.69	14.69	3.16	4.74
Wood Products	6.47	29.62	5.46	14.78
Furniture and Fixtures	2.54	14.72	3.04	6.88
Paper Products	13.35	41.77	10.47	20.57
Printing and Publishing	10.33	42.74	8.00	21.08
Chemicals, Fertilizers and Pharmaceuticals	7.97	29.28	6.88	14.06
Petroleum Products and Mineral Fuels	6.70	60.76	6.21	29.10
Leather, Rubber and Plastic Products	12.51	17.92	9.45	8.07
Non-metal Mineral Products	3.92	16.01	3.57	7.87
Metal Products	10.62	25.06	8.22	12.02
Non-electrical Machinery	2.31	6.39	2.52	2.59
Electrical Machinery	7.23	8.70	5.88	3.67
Transport Equipment	1.66	9.19	2.36	4.02
Miscellaneous Manufacturers	3.26	18.38	3.52	8.92
Mining and Quarrying other than Petrol.	6.06	27.60	5.24	14.00
Communication Services and Other Utilities	13.48	24.55	10.05	28.19
Construction	10.11	13.36	5.75	7.42
Wholesale Trade	18.39	73.01	13.07	34.42
Transportation and Storage	16.66	44.85	11.93	21.34
Financial Services	12.65	66.82	9.83	32.50
Personal, Business and Other Services	16.09	61.20	11.79	29.72

Concluding Remarks

In this chapter, we have attempted to contribute to the debate over closer economic integration with the U.S. We have developed a computable general equilibrium model and dataset to implement the hypothetical scenarios of: a) Canada and the U.S. adopting a common external tariff towards imports from third countries; and, b) the elimination of remaining bilateral trade protection between Canada and the U.S. In order to assess the differential impact of these scenarios on Canadian regions, our model features three such regions: Canada West, Ontario, and Canada East. Our findings suggest that due to previous free trade agreements between Canada and the U.S., the impact of these policy scenarios, with respect to the economy as a whole, was generally positive, as expected, yet of almost negligible size. However, certain sectors, food in particular, but also agriculture and clothing, will experience notable impacts,