

Studies in 1988 by the Economic Council of Canada and the Canada West Foundation made a variety of forecasts regarding the impact of the Canada-U.S. Free Trade Agreement (FTA) on the Canadian manufacturing sector.

In their Open Borders report, the Economic Council concluded that Canadian manufacturers must be prepared to modernize their plants and to upgrade the skills of their work force if they are to benefit under free trade. Without improvements in Canadian manufacturing productivity, increased U.S. competition could result in a net decline of employment and output in Canada under the Agreement.

In this context, the Council also concluded that:

The impact of the agreement will be moderate but positive. A net gain of 18,900 jobs and \$1.1 billion in output (or Gross National Expenditure) will occur in the Canadian manufacturing sector by 1998 under free trade.

Since the elimination of tariffs is to be gradual, the short- and medium-term effects of free trade will be fairly small compared to the long-term impacts.

Investment in the sector should increase because of greater economic activity, lower costs for imported machinery and equipment, along with increased capacity utilization rates.

The removal of tariffs should increase both exports and imports of manufactured goods, although imports should rise more than exports.

13 out of the 20 manufacturing indus-

Free Trade/Manufacturing in Man.

Manufacturers must be prepared to upgrade

tries studied are likely to experience increases in output and employment. These are: food and beverages; tobacco products; clothing; wood; furniture and fixtures; paper products; printing and publishing; primary metals; metal fabricating; machinery; transportation equipment; non-metallic minerals and petroleum and coal. Seven manufacturing industries are likely to be negatively affected. These are: rubber and plastics; leather; textiles; knitting mills; electrical products; chemical products and miscellaneous.

For Manitoba in particular, the Council forecast that a net gain of 938 jobs and \$53 million in output will occur in the provincial manufacturing sector by 1998 under free trade.

In their Evaluating the Fine Print report, the Canada West Foundation reported that for Western Canadian manufacturing in general:

The telecommunication equipment and electronic industries will benefit from greater market opportunities in the U.S. under free trade. The agreement will also benefit Canadian businesses and residential users through lower prices and a greater variety of U.S. imports.

The machinery industry will benefit in a number of areas under the agreement. Market opportunities in the U.S. will be increased because of the easing of customs procedures for temporary entry of personnel such as engineers and techni-

cians. This will improve installation and after-sales service for Canadian-made machinery.

For wood-based industries (ie., softwood lumber, newsprint), the agreement provides for a better trade environment and reduces the threat of countervail action on forestry products in the future. The FTA, however, does not affect the 1986 Softwood Lumber Memorandum of Understanding which placed a 15 per cent export tax on Canadian softwood exports.

In the transportation equipment industry, a slight increase in exports to the U.S. is anticipated over the long-term. The FTA will assure continued secure access and reduce costs for components imported from the U.S.

In summary, the Economic Council of Canada and the Canada West Foundation have concluded that the manufacturing sector in both Canada as a whole and Manitoba in particular will benefit under free trade. However, firms will have to ensure that sufficient productivity improvements are undertaken if they are to adequately address the challenges and opportunities of a more competitive economic environment under the FTA. Without these improvements, firms risk losing their competitive advantage and market share in existing markets.

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