



# THE UNSEEN WALL: THE FRASER INSTITUTE'S 2003 TRADE SURVEY

## Free Trade Confronts the New Protectionism

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**O**ver the past two years, The Fraser Institute has surveyed Canadian companies about the incidence of nontariff and non-quota trade barriers that companies operating in Canada face when exporting to the United States. The survey reveals largely unseen problems affecting Canadian exporters and may also be a harbinger of more problems to come. The type of trade barriers examined here are used on both sides of the border but this study gives a Canadian perspective on cross-border issues by surveying only Canadian exporters. The survey focuses on three broad categories:

- discriminatory regulations,
- cumbersome border inspections, and
- domestic content requirements.

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a third of Canada's GDP (gross domestic product). Even more remarkably, Canada's US trade surplus in goods almost equals 10% of Canada's GDP.

These staggering statistics underline the importance of maintaining a healthy relationship between the two countries. Many thousands of Canadians could be thrown out of work if, for instance, security concerns led to tighter border controls, or a renewed bout of US protectionism

boosted buy-America sentiment, or even a reaction to anti-Americanism in Canada caused the United States to increase its use of the type of trade barriers examined here.

In this world of just-in-time delivery, a simple change in border regulations or the attitudes of customs officials could inflict severe damage on the Canadian economy. Administrative measures alone—without any legislative action from Congress—could destroy tens of thousands of

jobs in Canada. As a trading nation, Canada's prosperity and its relatively high standard of living are dependent upon market access beyond its national borders.

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As this survey of Canadian exporting firms will show, the majority of respondents believe not only that relations between Canada and the United States have worsened but also that this worsening of relations has damaged their ability to sell into the US market.

A deterioration in trading relations between Canada and the United States would be devastating for Canada's economy. In 2002, Statistics Canada reported that 83.7% of Canadian exports were bound for the United States and that Canada's trade surplus with the United States stood at whopping \$92 billion (Statistics Canada, 2003). Curiously, many of those most opposed to free trade with the United States have argued that the United States would never dare hamper cross-border trade because the United States is too dependent on Canadian trade. This appears to be incorrect, as exports to the United States accounted for 38% of Canada's GDP while exports from the United States

to Canada accounted for 3% of American GDP.

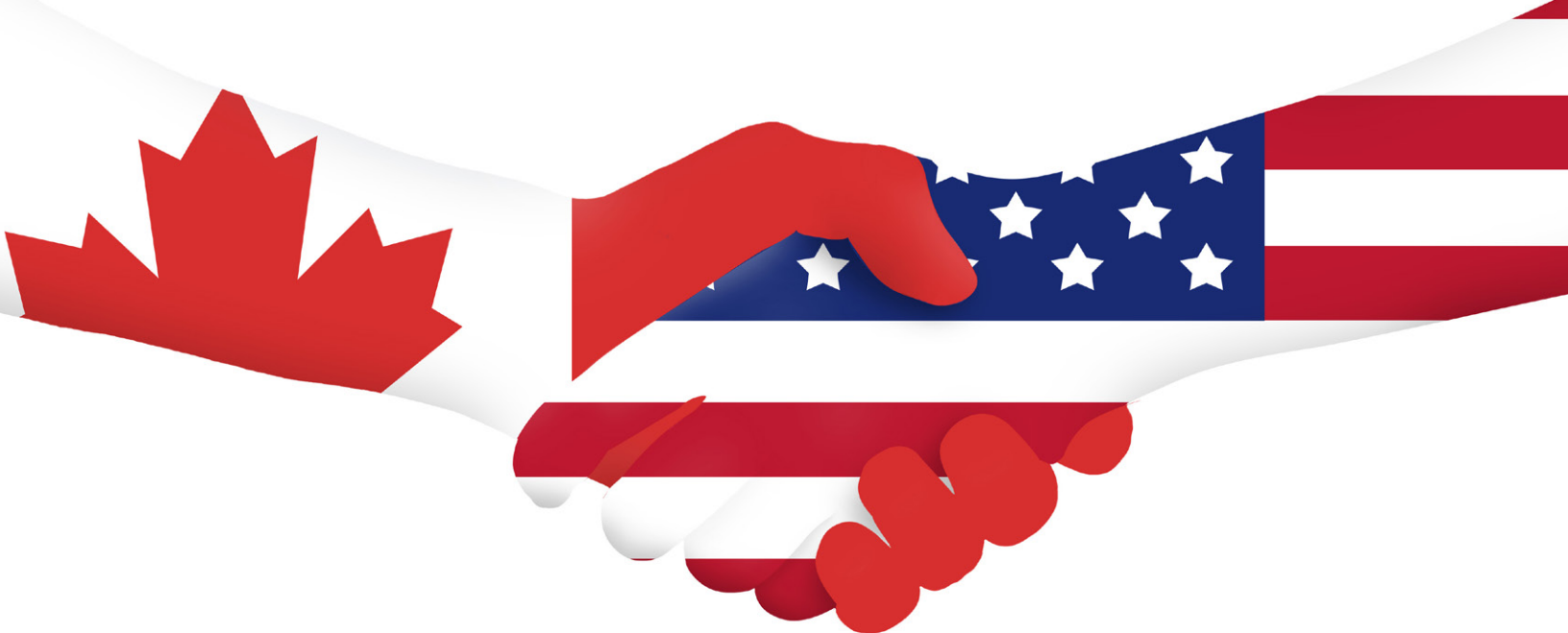
By examining trade barriers that could easily become more prevalent, this study provides Canadian policy makers with important information. Given that both Canada and the United States use such barriers but that it is Canada that is accumulating trade surpluses, the best way to ward off future growth of such barriers on the US side of the border is to work cooperatively with the United States on its legitimate concerns rather than deride them as some Canadian Parliamentarians seem inclined to do.

As well, rather than leaving trade issues on the back burner, the Canadian government should seek to develop a more comprehensive trade agreement with the United States and move more aggressively on the security file to prevent lengthy inspections on low-risk goods and travelers at border crossings.

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## **ECONOMIC GROWTH THROUGH FREE TRADE**


Free trade is an important determinant of prosperity and economic growth. Trade barriers limit the free flow of goods, services, and investment across national borders and shield inefficient



industries from foreign competition. Through free trade, countries can boost productivity from increased competition and allow a rational allocation of resources to occur throughout the economy (Law and Mihlar 1998).

A study that examined data from developing nations over the period from 1970 to 1990 found that those with open trade policies registered economic growth at an average rate of 4.5% annually, compared to only 1% among those with closed borders (Sachs and Warner, 1995). Also, studies conducted on the causality between exports and economic growth (Tao and Zestos 1999; Dutt and Ghosh 1996; Ghartey 1993) point strongly towards export growth as a significant factor or determinant of the GDP growth countries have experienced in the past.

The Great Depression highlighted the danger that economic protectionism posed to the health of the global economy. High tariffs were imposed on imports and trading nations such as Canada and the United

States suffered greatly. To avoid the calamity of punishing trade wars and high tariffs, Canada and many other countries have become parties to trade agreements to improve market access and to establish common rules to govern trade. 

## REFERENCES

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