5.5 INDUSTRIAL POLICY

In the pursuit of policies to promote economic growth, Canada and the United States have differed over what is and is not a legitimate intrusion in the marketplace by government. The implementation of the FTA, far from resolving these differences, is more likely to stimulate them by adding to pressures for policy harmonization. Those pressures will have important ramifications in the contentious area of industrial policy.

Taken in its widest sense, industrial policy can be defined as the direction and nature of the sum of a country's public and private efforts to shape economic activity and to influence growth. While the virtues of markets are everywhere hailed, few countries, or jurisdictions within them, and certainly not the most rapidly growing, are willing to forego the notion of seeking to shape, at least strategically, the nature and directions of growth. Industrial policy therefore includes a concern not only for its traditional subjects -- the manufacturing sector -- but also for the service sector, for finance, research and development, and education.

Many international trade professionals today believe that a country's industrial policy should be based on a concept of dynamic comparative advantage[130] -- on managed competitiveness -- either because they think it the best strategy, or because it is necessary, since very few governments profess to believe in the theory of totally unfettered free trade and fewer still practice it.

Industrial policy can range from the state-centred, plan-driven approach, where the government intervenes directly in all or part of the economy, to the fully market-driven approach, where an "invisible hand" is relied on to assure that decisions, made by the market on the basis of private interest achieve, the maximum good for the whole public, and where government involvement, if any, is restricted to the protection of property rights. Between these two extremes, however, there is a very wide range of framework and incentive policies that compose various conceptions of industrial policy.

Not only does industrial policy encompass this wide range of possibilities and various policy measures, but it can and is engaged in by a variety of institutional bodies, including private firms as well as governments and crown corporations at all levels.

All countries can therefore be seen to have "industrial policies", albeit made effective in different ways. One study on the issue tried to define several different national approaches used in recent years: through informal administrative guidance and credit subsidies (Japan); a heavy reliance on direct subsidy (the EC); trade protection (Australia); or

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130 Neoclassical economics defines comparative advantage as a more static force, which derives from a country's endowments of resources, labour and capital and a search for the most efficient way of exploiting their specific configuration. "Dynamic comparative advantage" suggests that countries can choose the industries or sectors in which they wish to be competitive by shifting the patterns of competitive advantage within their boundaries to favour one factor over another, or to promote a particular sector, industry or firm.