

5. POLICY IMPLICATIONS

5.1 Globalization And Government Resources Working Together

In the development of Canadian trade policy, it is important to recognize that the international trading environment is continuously evolving. The globalization process is far from over. Issues that were once within the exclusive domain of domestic policy makers continue to draw in international policy makers. There is a requirement for cooperation and understanding between different government departments with seemingly different mandates. As the government's international policy making hub, and the centre of trade policy formulation, the Department of Foreign Affairs and International Trade (DFAIT) will be required to deal with a much wider array of issues.

To the extent that the integration of financial markets has led to concerns regarding the stability of exchange rates and the effects unstable rates have on trade, we all share an interest with the Bank of Canada.⁴⁹ The Bank's explicit goal of reducing Canadian inflation will contribute to a more stable currency.⁵⁰ The long-term relationship between price stability and exchange rate predictability is one that we should be aware of and support. Bank policy assists in the promotion of international trade by providing a setting in which business is confident of the domestic price level, the value of the currency and thus its ability to compete internationally.

5.2 Possible Issues for Action

5.2.1 The Fixed Exchange Rate

Not everyone agrees that the pursuit of price stability should be the Bank of Canada's primary function. There is at least one other suggested way to develop and maintain the setting in which business is able to foresee a stable exchange rate and remain confident in its ability to compete internationally. Instead of a flexible exchange rate and a central bank policy focused on price stability, some would argue -

⁴⁹ This is not meant to suggest that the DFAIT work together with the Bank of Canada on providing a stable currency. Clearly, the Bank alone determines and implements Canada's monetary policy.

⁵⁰ The Bank's policy can *contribute* to a more stable currency, but it will not guarantee stability. Since the calculation of any exchange rate involves two or more currencies, the economic policies of two or more countries are involved. The Bank of Canada alone can not stabilize the Canadian dollar.