1. INTRODUCTION

In the 1980s, the trade balance of the U.S. declined sharply, while Japan, Germany and the Asian NICs built up large, continuing surpluses. At a popular level, concern began to grow that American goods were being frozen out of many foreign markets, and in particular the Japanese market. American competitiveness was slipping away in high-tech industries. As a result "good jobs at good wages" were disappearing. Such developments led many people to question whether the traditional postwar reliance on multilateral free trade arrangements is still the best course for the United States. The evolving U.S. response to these pressures will have an enormous impact on the international trading system as a whole, and on Canadian prosperity in particular.

The challenges to the multilateral system have also come from the recent theoretical development of so-called strategic trade policy. Some analysts, such as Prestowitz[1], Reich[2] and Thurow[3], have suggested that U.S. trade policy should "manage trade" to restore and sustain the competitiveness of American export industries. Traditionally, protectionist pressures have arisen to avoid job losses in older "sun-set" industries. The new trade policy would use the power of the U.S. market to promote specific market access targets abroad for those U.S. exporters (especially those in high technology industries where dynamic economy-wide externalities are assumed) who could dominate world markets, thereby preserving high-wage jobs in the U.S. At its core, the modern trade debate is not about jobs, but about wages and living standards. The new theory of strategic trade policy is often used as the intellectual support for managing trade through market share targets and targeted government support at home for those industries facing "unfair" competition from foreign suppliers.

Dornbusch diagnoses the U.S.'s trade problems as stemming principally from barriers to American imports in Japan, the consequence of which is to force down the value of the U.S. dollar and depress American real wages and living standards.[4] Dornbusch advocates "results-oriented" trade measures and a policy of aggressive bilateralism. He would establish quantitative targets for American exports into Japan and, if that did not work, would threaten Japan with higher U.S. import tariffs. Dornbusch is not concerned about promoting exports of one industry

[1] Clyde V. Prestowitz, *Trading Places: How We Allowed Japan to Take the Lead*. New York: Basic Books, 1988.

[2] Robert E. Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, New York: Knopf, 1991. Mr. Reich is now President Clinton's Secretary of Labour.

[3] Lester C. Thurow, *Head to Head*, New York: Warner Books, 1992.

[4] Rudiger W. Dornbusch, "Policy Options for Freer Trade: The Case for Bilateralism", in Robert Z. Lawrence and C.L. Schultze, ed., *An American Trade Strategy: Options for the 1990s*, The Brookings Institution, Washington, D.C., 1990, pp. 106-34.