

economic misery were the consequence. It would be fair to say that the lessons learned from the Great Depression serve today as the intellectual and political foundations upon which the modern system of a rules-based international trading system evolved. Post World War II, the multilateral international trading system was fostered with the established of the General Agreement on Trade and Tariffs (the GATT) subsequently replaced by the World Trade Organization (the WTO). The last 50 years has seen a steady erosion of trade barriers, and subsequently barriers to investment. Within the last 20 years, two important developments occurred. First, there were deeper regional trade integration agreements, of which the Canada-US Free Trade Agreement (FTA) and its successor the North American Free Trade Agreement (NAFTA), are important examples. Regional integration agreements (RIAs) have become more common as volumes of trade between close neighbouring nations accelerated, and frameworks for covering these close economic ties became easier to negotiate among a few parties, rather than the more cumbersome multilateral process under the WTO. In the 1990s this process accelerated dramatically; in 1989 there were seven major RIAs—by 1998 there were 84. The other development has been the gradual inclusion of developing countries within the GATT-WTO system. As imports from developing countries have surged, however, fears of low wage competition have become probably the single most important concern for those opposed to either WTO-led multilateral liberalization or in many cases regional integration agreements. There remain some sectors in which trade protectionism remains the rule rather than the exception. These include agriculture, textiles, footwear and clothing.

The results of trade liberalization have been nothing short of spectacular. Trade flows since 1950 have grown by more than a factor of 25 while output increased by only a factor of 7.2. International trade has similarly grown steadily in importance to Canada since the end of World War II. These increases in trade have occurred for a number of reasons, including changes in the cost of transport and communication, the end of the Cold War, economic and political developments in developing countries, and the success of market oriented domestic reforms in a number of countries, which contributed to a greater receptiveness to openness. Nevertheless it is universally recognized that policies by government towards reducing barriers to trade and investment have played a major role in these developments. Canada steadily liberalized its trade in the series of GATT rounds, taking a number of important unilateral initiatives. One of the more important developments within Canada was the 1964 Auto Pact between Canada and the US which led to the subsequent growth in two-way trade in autos and auto parts between the two countries.

Trade liberalization carries with it substantial national benefits. The case for "Free Trade", an ideal state in which there are no policy impediments to trade, is also the basis for the more practical objectives of international agreements which liberalize trade. These benefits generally fall under the following headings:

a) Greater efficiency from the pursuit of national comparative advantage. This basically says that a country should produce what it is best at, and import goods that it is (relatively) inefficient at producing. For the world as a whole, the use of market signals is the method by which a more efficient world allocation of production occurs.