Chart 1 compares the growth in real exports and total output over the 1961 to 1986 period for the European OECD countries, Canada and the United States. It shows that growth in real exports and in gross domestic product was the highest in Canada over this period, although exports in relation to GDP grew relatively faster in Europe than in Canada and the United States. This reflects the influence of the formation of the European Economic Community (EEC) on member country trade. Rapid growth in trade has gone hand in hand with significantly improved economic performance.

The experience of the European Economic Community provides probably the most notable illustration of the positive links between trade and growth. Tariffs among EEC member countries were eliminated over 10 years beginning in 1959. Between 1959 and 1969, trade within the EEC rose by 347 per cent. In contrast, external trade over the same period increased by 130 per cent for Canada, by 124 per cent for the United States and only 77 per cent for the United Kingdom. The differences in economic performance were equally dramatic over this period. For the larger EEC countries, Germany, France and Italy, the growth of output per capita was about twice that of either Canada or the United States.

The OECD report stresses that the economies of scale made possible by the existence of a large integrated European market increased productivity in the major EEC countries by nearly 12 per cent – five to 10 times more than Common Market proponents had predicted. Such economic dividends have encouraged a number of other countries, both small and large, to join the EEC over the years. The European Economic Community membership has grown from six in 1959 to 12 today.

The association between expanding trade and improved economic performance did not go unnoticed in Australia and New Zealand. Many observers, including the OECD, feel that the poor economic performance of Australia and New Zealand in the 1960s and 1970s was partly due to their unwillingness to liberalize their foreign trade.

The OECD study makes a comparison between Australia and New Zealand and the Scandinavian countries. In 1960, the Scandinavian countries were among the seven European countries which formed the European Free Trade Association (EFTA). At that time, per capita income in Australia and New Zealand was 8 per cent *above* the average of the Scandinavian countries. By 1986, it was 34 per cent and 53 per cent, respectively, *below* the Scandinavian average.

In December 1982, Australia and New Zealand signed the Closer Economic Relations (CER) Agreement, stipulating a gradual phasing-out of all barriers to trade in goods between the two countries, with all tariffs disappearing by 1988. Although it is too early to evaluate fully the effects of freer trade, the rate of growth of trade between the two countries has accelerated rapidly. Moreover, as economic theory would suggest, New Zealand, being the smaller country, has been able to expand its exports at a faster pace than Australia. Indeed, it posted average annual growth rates of exports to Australia of 31 per cent in 1984 and 1985, nearly double the growth of Australian exports to New Zealand.