would be reversed as soon as the decision on EMU is made) in order to be allowed to proceed to EMU. The Stability and Growth pact (Commission of the European Communities (1997a)) was basically a re-commitment to the economic criteria of Maastricht, but extending these criteria to the operation of fiscal policy beyond the 1999 inception. The pact entails adherence to the 3 percent budget deficit criteria (as an upper limit), coupled with detailed rules concerning penalties that could be imposed on Member States that transgress these criteria.

The political debate concerning EMU in the EU will likely continue over the next two years, at least, as controversial decisions will have to made in early 1998 as to which Member States proceed to EMU, and these decisions will no doubt take on a political overtone. The United Kingdom, which traditionally brings up the vanguard on many EU initiatives, was, up until recently, the flashpoint for much of the political debate surrounding this issue. The furious debate that took place before the general election of May 1997 over the desirability of EMU has led to a myriad of political reasons to justify moving to EMU, some connected with "two-level" political games (which allow certain countries to enact policies which without EMU as an excuse would be unacceptable to the electorate - see Puttnam (1988)) and some which stress the need to bind Germany into a pan-European framework so as to "neutralise" and incorporate its political and economic aspirations into a wider political context (see Johnson (1996)) . These groupings have sprung out of the perception that EMU represents a political watershed in the development of a more integrated EU, and differing views as to the desirability of any formal ties beyond that of a common market have helped to crystalise the approaches of these various camps. In France, the electorate have begun to question whether so many economic sacrifices for EMU are in the interest of the country, given public sector expenditure cuts and high levels of unemployment. In Germany, the debate has largely revolved around either the issue of whether the single currency would, if introduced, be as stable as the Deutschmark, but with high levels of structural unemployment and a stubbornly high budget deficit, there are now lingering doubts as to whether EMU will be in Germany's best interests. While the sacrifices which have been made in order to meet the convergence criteria are deeply unpopular with the general public, there is a long-term political commitment to EMU among the EU political elite that will likely ensure that political events do not completely derail the process

As of writing, it is expected that EMU will likely proceed in 1999, with either a small core of Member States being permitted to take part in the final stage of EMU, or that a larger number of participants may be permitted to participate. The "first wave" is to be complete in 2002, according to the transition plans (Commission of the European Communities (1995)), and other Member States will be permitted to proceed when a review of economic performance of Member States is completed, set to be scheduled every two years after the final stage begins. The "first wave" of Member States is currently an extremely contentious issue in European political and economic circles, with countries like France, Belgium, Spain and Italy making valiant attempts to reduce budget deficits and public debt to at least qualify under the "dynamic let-out" clause of the Maastricht Treaty. Table 1.1 below reproduces the important dates in the process that was based on the Commission Green paper changeover scenario. This plan was adopted by all Member States at the December 1996 Dublin summit of the EU first ministers.

The realisation that EMU will likely occur has led to intense speculation about the likely and possible effects on countries outside of the EU (see Financial Times (1997a) and the Economist (1997)). Indeed, like the US, Canada has until recently largely ignored these turbulent and tumultuous events in Europe, unless foreign exchange market volatility surrounding these events affected the Canadian dollar (with perhaps the exception of the report of the Senate of Canada (Standing Senate Committee on Foreign Affairs (1996))). It is therefore timely that this report should consider the implications of EMU for Canadian trade and foreign direct investment.

The following section reviews recent Canada-EU trade and investment trends to place the possible changes in proper context. The third section reviews the merchandise trade issues for the EU members and Canada and the fourth section reviews the trade in services issues. The fifth section