

clothing--the problem of stiff import competition in the Canadian market is due not to U.S. competition but to offshore competition. At the same time, the unsettled global trade policy environment raises numerous questions about the future of the GATT and other multilateral institutions. The Canadian and U.S. economies are not immune to foreign trade policies, and both Canada and the United States have a large stake in a stable and open multilateral trading system. In short, the assessment of the bilateral trade options needs to recognize a world characterized by a high degree of global economic integration and strong economic pressures for structural adjustment. Developments in the global trade policy environment are also an important consideration in evaluating the bilateral trade options.

In the context of global trade, the evaluation of the economic impacts of bilateral trade liberalization on the Canadian economy must take into account the issue of trade diversion. Part of the economic impact on Canada, particularly in terms of increased production and exports, of entering a bilateral trade arrangement would come from trade diversion as Canadian exporters would no longer be confronted by the same trade barriers faced by other exporters to the U.S. market. To the extent that adjusting to meet the competitiveness of U.S. industries within a bilateral trade arrangement is the first step to meeting global competition, the bilateral trade option should not be viewed as a pure alternative to the multilateral approach. Indeed, it is likely that the adjustment process in Canada would be smoother and less costly in most industries if a bilateral trade liberalization arrangement preceded further multilateral trade liberalization.