spending in the economy, is accounted for by exports.[1] However, in another sense this vastly understates how dependent Canada is on trade. The structure and the entire organization of the Canadian economy is crucially dependent on trade and on its integration with the United States.

It is important to remember that the real purpose of exports is to import—i.e. to consume what you do not or cannot produce. The level of income in a country reflects both the efficiency with which your resources are used to produce the goods exported, and the relative value or price of goods exported versus those imported. As a small country, Canada produces a small share of the range of technologically advanced goods in the world. In a world of much reduced trade most of those goods would not be available, and it would be folly to think that a small country could undertake the investments necessary to produce even a fraction of those. Thus our access to computers, books, MRI machines, commercial jet aircraft and the Internet reflects the ability of Canadians to sell other goods in international markets.

Trade Liberalization and the role of Trade Agreements as Economic Instruments

While very large economies such as the United States have historically had good economic growth while trading relatively little, this is emphatically not the case for Canada and virtually all smaller industrial economies. In general, international trade has conferred enormous benefits on modern nations, and the history of economic progress has been coincident with the internationalization of the world's economy. While there have been periods in which, for a variety of reasons, nations and regions within have sought to become self-sufficient, trade, or more generally exchange between geographically distinct regions, is generally thought to be one of the principal driving factors behind the industrial revolution and economic advance over the last two centuries. Canada's fortunes are ample testimony to these forces. Canada began as a colony that exported raw materials to Europe, and imported finished goods. By the mid 19th century, the industrial revolution had taken hold in the United States and was beginning to see early signs of development within central Canada. After confederation in 1867, the nation continued to export natural resources and agricultural products, but began a period of development by using trade protection to promote development of an indigenous manufacturing sector. Canada was not unique, and with the exception of Britain, most countries had highly protectionist regimes covering their manufacturing sectors, and in some cases agriculture and natural resources.

However, the costs of trade protection and its negative impacts on economic development became more widely appreciated by the end of the 19th century and a period of limited trade liberalization covering manufactured goods began. This process came to a brutal halt in the 1920s, and with the beginning of the Great Depression the modern world saw a dramatic shrinkage in international commerce as countries pursued beggar-thy-neighbour policies of trade protectionism. High rates of unemployment, falling incomes, and general

[1] See Cameron and Cross (1999) for one such calculation. One has to net out imported inputs necessary for exports to do this calculation.