

scale that help them in civilian markets. For example, one of the most successful civilian aircraft produced by Boeing, the Boeing 707 (introduced in 1960), owed a great deal to a previously developed military plane (the B-52 bomber). The Boeing 707 continues to be manufactured, long after its civilian sales are over, as the AWACS reconnaissance plane. Military R&D sometimes gives U.S. companies knowledge that they can apply elsewhere. As usual in industrial policy issues, however, the quantitative importance of these effects is a matter of dispute. European commentators, who sometimes feel that they are losing a race with the U.S. and Japan, have suggested that in practice the U.S. has as effective an industrial policy as Japan.⁴³

4. AN ASSESSMENT OF STRATEGIC TRADE POLICY FOR CANADA

"...It is important for those who live in the smaller open economies to appreciate fully the 'strategic trade policy' argument, both at the logical and empirical level, as it is being used in the large industrial countries. As these arguments are important inputs into the formation of trade policy within the United States, the European Common Market, and Japan, it is certain that those policies will affect our own country, and in ways that we may not fully understand."

—Richard G. Harris⁴⁴

The most touted merit of strategic trade policy is to snatch monopoly rents in newly-emerging international markets. This is a theoretical argument and is riddled with practical problems. Policy makers in Canada must take a hard look at practical aspects of this new mercantilist policy advice. Let us discuss the issues.

First, what kind of monopoly rents is the policy aiming to shift? We observe much monopoly rent due to trade restrictions. For example, the Japanese auto industry's profits due to the voluntary export restraints, or the Hong Kong textile and garment exporters' rents under the Multi-Fibre Arrangement. However, those are not the kinds of rents the new mercantilists are talking about. We want to know whether the future world markets in new products would have monopoly rents. These would be the profits, according to strategic trade policy, that each national government would find in its interest to capture. Even with a subsidy from the

⁴³ William J. Adams and Christian Stoffaës, eds., *op. cit.*, 1986.

⁴⁴ Richard G. Harris, "New Protectionism Revisited", *Canadian Journal of Economics*, (22) 1989: 751-78.