The last decade has seen the emergence of global corporations and global networks involving local and regional firms. These new forms of industrial organization rely on a much more fragmented and decentralized approach to design, engineering, production, marketing and service. They are organized much more horizontally than their counterparts from an earlier era and they make much greater use of expertise and resources outside the firm. Global firms use strategic alliances such as joint production, R & D and other ventures, licensing arrangements, contracting out and brokering among global corporations and networks as basic techniques in organizing their activities. As a result, there has been a tremendous growth in intra-corporate and intra-sectoral trade and in parts and components as well as an increasing reliance on activities taking place far from corporate headquarters or ultimate markets. New forms of specialization have resulted in the development of strategic links between global corporations and local suppliers and distributors on a global basis. The stability in corporate organizations and relationships that was an integral part of economic life in the 1950s and 1960s has been replaced by a new premium on fluidity and flexibility. Employees no longer experience the same symbiotic relationship with the firm and firms no longer feel any special attachment to political entities. With the reduction and even elimination of traditional border-based barriers to trade, political frontiers now bear little relationship to economic frontiers.

To private sector decision-makers, the issues of government policy that are critical are less those of trade policy than those that provide the overall economic climate. Governments are increasingly aware of this and thus the focus of policy has shifted from efforts to segment markets (i.e., protect existing investment) to efforts to promote interdependence (i.e., attract new investment by both domestic and foreign investors). As a result, we have seen concurrent policy rivalry and policy convergence along a broad range of government instruments from fiscal and monetary policy (convergence on a world-wide basis as government after government adopts the IMF prescription for macro-economic policy) to subsidies and sectorally-based regulatory schemes (rivalry as governments compete for investment). This shift in basic orientation, however, is incomplete. Much of the underlying thinking is still based on the assumption that much of economic life can be understood on the basis of national corporations operating within national economies controlled by national governments.[7]

The current downturn in the business cycle provides a good example of residual thinking. Much public discussion – in Canada and elsewhere – assumes that this recession is a national phenomenon resulting from the fail-

7 For an analysis of some of these phenomena from a Canadian perspective, see Richard Lipsey, "The Case for Trilateralism," in Steven Globerman, ed., *Continental Accord: North American Economic Integration* (Vancouver: Fraser Institute, 1991).