

Protectionist trade policy instruments and subsidization have the effect of raising the relative price of imports in order to reduce competitive pressure on import-competing domestic firms. Progressive trade liberalization, such as the binding and reductions of tariffs in successive GATT rounds, has reduced the ability of countries to protect domestic producers. With bound tariffs, firms have much less political leverage to pressure governments into raising tariffs in response to foreign competition. With increased levels of integration, i.e., fewer tariff and non-tariff barriers, labour adjustment policies in response to increased competition take on greater importance. Countries no longer have the same range of policy options to delay or avoid adjustment. This is true for all countries participating in economic integration. For Canada, it is important to realize that authorities in Canada's export markets are also constrained from mobilizing the full range of measures previously available to protect their local producers from Canadian competitors.

The successful conclusion of the Uruguay Round includes new disciplines on trade-related intellectual property (TRIPS), such as patents, copyrights and trademarks, and trade-related investment measures (TRIMS). TRIMS include such measures as local content requirements that specify that the production process must use a certain proportion of inputs that are produced in the host country, and export performance requirements that specify that a firm must maintain a minimum volume or value of exports. Multilateral discipline on TRIMS in particular will influence business decisions on the location of investment and production. The prohibition of several TRIMS removes certain government imposed constraints that may negatively affect investment. Consequently, by establishing effective multilateral rules on TRIPS and TRIMS within a trade agreement, policy flexibility in these areas is reduced in both import and export markets.

4. CANADA: A SMALL, OPEN, TRADE DEPENDENT ECONOMY

4.1 Canada and Trade

The cornerstone of Canadian trade policy has been active support for the liberalization of the international trading system via rulemaking, most particularly through the establishment of the GATT and successive GATT rounds, as well as regionally through the FTA and the North American Free Trade Agreement (NAFTA). Canada has a relatively small domestic market. Maintaining and enhancing access to foreign markets is vital to the Canadian economy and improving Canadian living standards. Exports are one of the main sources of economic growth and job creation