

Looking at investment, this Paper found that the stock of foreign direct investment in Canada has been increasingly accounted for by sources outside the U.S., although the U.S. retains the highest proportion of the total stock. Europe and Asia both possess an increasing proportion of the total stock of FDI in Canada. Encouraging potential future investment from Europe and Asia, as well as other regions, should continue to be the aim of Canadian investment policies that are not exclusionary or confined to one specific region. Tax policies and those that affect the more general macroeconomic environment, such as social and labour policies, also need to be competitive in order to continue to attract FDI in an inter-regionally competitive environment. These policies will become increasingly important to attracting and maintaining FDI the more globalization advances.

One qualifier is that the benefits of regional integration must come from increased international competition, not protected markets. During the initial phases of economic integration, a longer "phasing-in" period or some alternate form of industry protection may be necessary politically to ease the structural adjustment process, particularly for the more vulnerable economic partner. But it is very important to ensure that such programs are decidedly temporary. Otherwise, certain groups with political clout could lobby for this special treatment to become permanent, undermining potential benefits of integration.

It is also important that extra-regional trade, at least as a percentage of GDP, remains a significant part of total trade for the three regions reviewed in this Paper. Averting a potential "trade war" between the members of the triad is necessary for welfare gains to be realized. This cautionary note is particularly relevant at a time when pressures for protection, particularly in the U.S., are developing.⁷²

Finally, there is a simple, but important, lesson to be drawn from economic history. At this time, when the world is still feeling the effects of the dissolution of one of the most insular trading blocs in modern history, the Soviet Union and the COMECON, it is important to remember that economic systems are not static. The fall in importance of other "trading blocs", such as the British Commonwealth, exemplifies the fluidity of global economic relations. Although it might appear evident that tri-polarization is emerging today, the long-term evidence indicates that the trend is neither so robust nor so exceptional as is popularly reported. It is interesting to note that few would have predicted fifty years ago that Japan would rival the U.S. for global economic dominance today. Although tri-polarization might indeed be the way of the future, policies should be flexible enough to respond to unforeseen changes.

⁷²Urata, *op. cit.*, pp. 44-5.