homegrown, he missed another point: traditional ways of interpreting trade statistics no longer captured the extent of international economic interdependence. As Douglas Irwin points out, "A close analysis of the merchandise trade figures indicates that trade is substantially more important now than in the recent past for those sectors engaged in trade."[6] He calculated that US merchandise exports as a share of merchandise production grew from 15 percent in 1970 to nearly 40 percent in 1999, even though the share of merchandise trade to GDP grew much more modestly, largely because of the growth of service production as a share of GDP. In Canada, the exports of goods in 1999 represented 125 percent of the value of goods production, consistent with the high level of imports in Canadian exports and the much more export-intensive nature of production in Canada. The comparable figure for 1970 was 65 percent, suggesting a similar rise in the export intensity of the economy[7].

Cross-border fragmentation and integration of production between Canada and the United States started well before it had become commonplace on a global scale. As a result of the 1965 Autopact, automotive production in the two countries was reorganized in the 1960s to allow the major assemblers and their suppliers to integrate their facilities on both sides of the border and thus provide scope for more specialization and the benefits that flow from economies of scale and larger markets. As border barriers came down, other industries followed suit, a process that deepened and accelerated following the implementation of the 1989 Canada-US Free Trade Agreement (CUSFTA) and the 1994 North American Free Trade Agreement (NAFTA).

In this paper, we consider the implications of deepening and accelerating cross-border integration for North American trade policy. We argue that the benefits that flowed to the two economies from the conventional trade negotiations of the past have now been largely realized. More benefits have flowed

---

[6] Douglas A. Irwin, *Free Trade Under Fire*, 2nd edition (Princeton: Princeton University Press, 2005), p. 8.

[7] Values calculated from Statistics Canada GDP and Balance of Payments data.