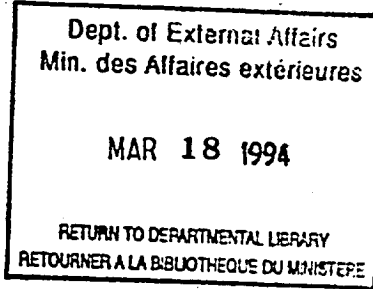


**FINANCIAL MARKET INTEGRATION:
THE EFFECTS ON TRADE AND THE RESPONSE OF TRADE POLICY**

Executive Summary	3
Résumé	6
1. Introduction	10
2. The Internationalization of Capital Markets	11
2.1 A Modern History of World Capital Markets	11
2.2 The Importance of Financial Integration for Canada	13
3. The Economic Policy Impact of Financial Integration	14
3.1 Monetary Policy	14
3.2 Fiscal Policy	15
4. Trade Implications	16
4.1 Increased Access to Capital for Developing Countries	16
4.2 The Role of the Exchange Rate	17
4.3 Exchange Rate Volatility and Trade	18
4.3.1 Short-term Fluctuations	19
4.3.2 Longer Term Misalignments	21
4.3.3 Arguments for Protection	26
4.3.4 Volatility Not All Bad	26
4.4 The Common Currency Debate	27
4.4.1 Free Trade Areas and Common Currency Areas	28
4.5 Financial Instruments to Reduce Risk	29
4.6 Trade in Financial Services	32
4.6.1 What is Trade in Financial Services?	32
4.6.2 Financial Integration an Opportunity for Increased Trade	32
4.6.3 Recent Canadian Experience	33



AB-267-312