

Harmonization of national policies has become a central concept emerging from the economic pressures of the 1980s and has arisen in Canada in particular association with the debate surrounding the FTA. In some contexts it is taken to imply beneficial international collaboration and concertation in the management of economic events. In other contexts, it is used negatively to imply international pressures to compel national policies to serve a narrow business agenda exclusively. Both senses are discussed under a number of sub-section heads in this section.

### 5.1 HARMONIZATION & SOVEREIGNTY

In response to the pressures of global restructuring and the growing interdependence of national economies, noted almost continuously in this report, some countries have begun to recognize the necessity of undertaking co-operative initiatives as the best way to respond to the fact of interdependence. While classical trade theory suggests that comparative advantage will dictate what gets made where, and what gets traded as a result, and that varied factor endowments result in varied industrial structures and trade, today, governments also play a major role in this process.

Many government policies can effect the competitive capacities of companies seeking to do business. For example, laws dictating high minimum wages in one location may move production of a good requiring low-skill labour to another location, while low levels of education and skills training will push high-technology or research related jobs to areas with a better educated workforce. Differences in investment and taxation policies, regulation of health and safety, and environmental protection rules also contribute new complexity to locational decisions by corporations seeking the maximum return for their efforts.

Whether or not a country is in a free trade relationship with some or all of its trading partners, all countries for which trade is important face pressures to harmonize, or to equalize the effects, of policies that have an important consequence for the business environment. Entering into a free trade agreement will only increase those pressures, particularly in areas of the economy that lack natural economic advantage such as abundant natural resources or energy supply, or which face high transport costs. Increasing market size brings increased sales opportunities, but at the same time increases competitive pressures.

As the range of policy environments that business can choose among widens, pressures for harmonization of government policies will increase. These pressures can be met (a) by moving towards the adoption of international market-based standards whose lowest-common-denominator tendencies often do violence to the social goals of states; (b) through the negotiation of co-operative agreements; or (c) by resorting to protectionism to isolate all or part of a national market from international competition. Of course, the protectionist option is eliminated for those sectors of an economy encompassed within an agreement for a free trade area.