

picking corporations that are to receive government money. It is a general property of strategic trade and industrial policies that their effectiveness depends on an exact reading not only of the targeted industry, but also of the impact on other industries with which it competes for resources. The crucial question here is whether the intervention by bureaucrats can outperform the market outcome. The Paper looks at several specific examples in Europe and Japan that suggest that picking "winners" leads to sub-optimal results.

The empirical evidence of industrial policy is, at best, a mixture of failures and arguable successes. In Japan, the "success" of industrial policy occurred from the 1950s to the early 1970s, but was a response needed to balance other distortions created by Japanese government policy, including exchange and interest rate controls. Moreover, Japanese policies were more directed at catching up rather than supporting industries of the future that one commonly expects strategic trade policy to deliver. From the mid 1970s on, Japan has not been the first mover and its corporations have not been the first ones to capture rents, even in the case of semiconductors.

Enhanced access to international markets and domestic markets free of impediments are linked and mutually reinforcing. Market economies work well because they constantly move resources from relatively unproductive uses to relatively productive ones. This is a powerful and enriching process of destruction and renewal. Free trade broadens the scale of the market, increases the pressure of competition and facilitates the process of creative adjustment. Departures from this fundamentally sound approach should be truly exceptional, limited to substantiated instances of market failure or the defence of otherwise competitive industries from the clearly predatory policies of other governments. But even in these latter instances, strategic trade and industrial policies represent a second-best option. International rule-making developed through trade negotiations should remain the preferred approach for Canada. Such negotiations can be tedious and frustrating, but they have delivered results that have served Canada well. Rule-making is more likely to bring permanent, optimal solutions than embarking on the uncharted, and essentially unchartable, waters of strategic trade policy.