

- Canada could exclusively pursue North American, or even hemispheric, trade integration, since North America has not been consistently expanding its intra-regional trade shares, as have Europe and Asia.
- Canada could avoid specific policies that promote North American integration, since there is little threat of Europe or Asia closing off trade and investment. Our interests would be best served in a global context.

A third, and much more likely, option would mix the two extremes. For example, this might involve expanding regional trade agreements such as the NAFTA, without limiting membership to the Western Hemisphere. This third option would involve a balancing act between pursuing the expansion of regional trade agreements, while at the same time remaining committed to multilateral negotiations. For example, regional agreements could be used as "test beds" for multilateral agreements. These test beds might liberalize faster and further and could push towards global free trade.

The literature survey highlights the current thinking that regionalization and globalization need not be viewed as divergent and competing processes. Also, regionalization, in the form of natural trading bloc formation as well as some *de jure* regional trade agreements, can actually enhance multilateral liberalization, particularly if a regional trade agreement goes further in liberalizing than what could have been obtained in multilateral fora. Traditional fears about the effects of regionalism, such as trade diversion, ignore such dynamic benefits as increased income within the region spilling over to the rest of the world in the form of increased demand for extra-regional imports. The policy implication is that regional trade agreements should not be as feared by smaller, non-member countries as much as traditional thinking might suggest. Although multilateralism is still preferable to regionalism in trade negotiations as far as total welfare effects are concerned, regional trade agreements that do not hinder multilateral agreements and follow natural economic development may, in reality, contribute more to the global freeing of trade than to the polarization of the world economy. However, it should be remembered that it is this global, multilateral freeing of trade that remains the ideal.

Although it is a reality that the members of the triad possess unrivalled economic power, a country's (including Canada's) trade and investment policies should not be defensive, but should be determined by the tenets of economic efficiency and welfare maximization. Even though the proximity to the economic powerhouse of the United States benefits Canada tremendously and our southern neighbour will remain a priority for policy makers, *exclusionary* regional policies should not be pursued. Promoting trade with several different geographic areas based on their economic merits should remain the aim of competitive and liberal Canadian policies.