

The essential feature of an FTA is that each member continues to have separate and distinct commercial policies for relations with third countries. The removal of bilateral trade barriers creates incentives for trade deflection -- because of differences in external trade barriers -- but most problems can be resolved in advance through negotiation of rules-of-origin criteria. As Victoria Curzon says about the EFTA experience:

It was an amazing technical success, in that the various administrative problems associated with operating a free trade area worked smoothly and did not impede the growth of trade. Visible distortions in the pattern of production and investment due to variegated national tariffs did not occur. The EFTA experience therefore confounded the critics of the negotiations and proposals in the late 1950s for a pan-European free trade area, who had predicted dire consequences if no harmonization of external tariffs took place.¹³

This discussion of some of the effects of an FTA on trade flows suggests two quite contradictory influences on the commercial policies of the member countries. On the one hand, one member is likely to urge the other to harmonize its external commercial policies to prevent increases in trade deflections or diversions. This problem can largely be solved by the rules-of-origin criteria, but careful negotiation of these criteria will be required. Indeed, far from harmonizing their external trade barriers, members of the FTA can be expected to use their external trade barriers as bargaining chips in multilateral trade negotiations.

On the other hand, the commercial policies of Canada and the United States will continue to evolve if an FTA agreement is concluded. There is little evidence or analysis to support the contention that an FTA inevitably will lead to a closer form of economic integration, such as a customs union. An alternative and perhaps more likely outcome, suggested by Gary Hufbauer of the Institute of International Economics in Washington, D.C., is that future