1970s. The opening of China's economy to foreign trade and investment has continued irregularly, but without major reversals ever since. The fall of the Berlin wall and the collapse of the Soviet Empire were very dramatic political events with significant long run economic consequences. Presently, China is striding, and the former Soviet Union is stumbling back into the world economy.

The rapid changes in the global economy raise questions about how Canadian policies have adapted, and how do they affect the competitiveness of Canada in the global marketplace.

Competitiveness of the Canadian Economy

The overall competitiveness of the Canadian economy is influenced by framework policies such as the taxation system, social policies and domestic regulation. Macroeconomic policies in Canada and major trading partners will shape the pattern of Canadian trade and investment flows.

Framework Policies

The overall mix of domestic policies is critical to Canada's competitiveness. Adopting sound fiscal and monetary policies, creating a more skilled labour force, removing internal market barriers, and establishing tax and regulatory policies that encourage investment, and human resource development are all essential ingredients in any framework to promote increased Canadian competitiveness. Fiscal pressures are forcing the federal and provincial governments to retrench programs such as unemployment insurance, which have insidious effects on labour markets. More needs to be done in reform of social policies to promote the effective development of skills and the utilization of human resources, but there are political obstacles that must be surmounted. With high unemployment and a domestic economy that is likely to remain subdued for several years, the new federal government will have a keen interest in ensuring that all of its economic policy levers are aligned with the objectives of improved international competitiveness and increased exports.

Monetary and Fiscal Policies

Canada's monetary and fiscal policies have been a major factor in Canada's economic performance, and the future conduct of macroeconomic policy will influence Canada's medium-term prospects. In 1989-1993, Canada had a current account deficit averaging 4 percent of GNP reflecting at least in part the persistence of the fiscal deficit by the federal and provincial governments. At the same time, Canadian monetary policy was directed at containing inflationary pressures and tightened in 1989, after the temporary easing immediately after the October 1987 stock market crash. This macroeconomic policy mix of large fiscal deficits and monetary restraint led to a level of interest rates in Canada and an exchange rate for the Canadian dollar, which were high relative to sustainable values. The Canadian dollar peaked at .88$ US in November 1991, but has since declined about 20