

the dynamism in the Canadian economy is likely to come increasingly from knowledge-intensive activities rather than from resource products alone.

Domestic policies. The structural change in Canada's trade in goods and services is a reflection of changes that are an outgrowth of the interaction between the Canadian economy and the world economy. As our access to international markets expands in a more liberal trading system, the ability of Canadian-based firms to increase their export business will increasingly depend on the flexibility of the domestic economy to restructure. Resources must be able to move speedily out of declining industries and into activities where Canadian firms can become competitive and chalk-up better trade performances.

In general, trade policy is mostly an ineffective or blunt instrument for correcting distortions in domestic policies or for the (mis)allocation of resources and incentives through the political process. Profit and money making opportunities guide market participants to hire workers and produce goods and services. For the most part, markets do a good job in delivering resources to their most beneficial address. Given that the shift toward knowledge-intensive activities will continue, government policies should accommodate and facilitate beneficial structural changes in the Canadian economy.

- Domestic government policies should be aimed at minimizing or eliminating distortions that would hinder market forces in allocating resources.
- Regulations and barriers to entry in the Canadian marketplace should be demolished.

In a knowledge-based global economy, raising productivity growth has to be one key policy objective. It is essential that workers in Canada are equipped to use new technology and information to raise productivity. Priority should be given to education reform to improve our secondary and higher education system. Tax and budget reforms can encourage more private saving and investment, and improve quality of investment. The reforms should enlarge productive capacity, raise productivity and provide Canadian firms additional room for trade expansion.