

undermined progress on this front), and by lowering inflation to a level unseen in a generation. Moreover, the government has implemented several critical structural reforms: a modern Competition Act (1986), deregulation in the transportation and energy sectors, the liberalization of the foreign investment regime, the privatization of numerous state enterprises, comprehensive tax reform, changes to the unemployment insurance system to shift additional funding to labour force skills development, and improved market access through the FTA and the NAFTA. There are now tentative signs that these adjustments are beginning to create real gains. Not only is Canada's inflation rate now the lowest among the G-7 countries, but productivity (measured as national output per worker) perhaps began to rebound in 1992.²² Moreover, those sectors liberalized through the FTA have witnessed an overall increase in exports to the U.S. that has outpaced imports in the same sectors, a trend that is particularly strong with regard to non resource-based products.²³ Nonetheless, sustained effort over an extended period of time will be required to recuperate lost ground in the productivity race.

The lowering of the real cost of capital through effective monetary and fiscal policies, the promotion of strong domestic rivalry among firms, the removal of inter-provincial barriers to trade, and further regulatory reform to encourage efficient domestic markets will all strengthen Canada's competitiveness. For its part, outward-looking, innovative trade policy also has a major role to play in this process of recovery. Improved market access abroad will encourage the growth of Canadian exports of goods and services. Clearer, more comprehensive trade rules enshrined in international treaty obligations will provide greater security of access to markets abroad by limiting the capacity of our trading partners to implement unilateral restrictions against our goods, services, and investment. Continuing the post-War opening of Canada's domestic market will encourage needed structural adjustment at home, within the context of clearly defined transitional rules to ease the process of adjustment where required. More secure markets abroad and the incorporation in trade treaties of non-discriminatory rules related, *inter alia*, to investment and intellectual property can help to reaffirm Canada as a preferred investment site for domestic and foreign capital. And innovative, flexible trade policy can accommodate legitimate concerns related to environmental protection. Trade policy is, therefore, a critical component in the struggle to recuperate Canada's competitive edge.

²² "Canada's Current Economic and Fiscal Situation", Department of Finance, October 1992.

²³ Daniel Schwanen, "Were the Optimists Wrong on Free Trade? A Canadian Perspective", C.D. Howe Institute Commentary No. 37 (October 1992), pp. 5-9.