

Elaborating on this theme, the Council of Economic Advisers argues that "the possibility of an FTA...offers the United States and others the option of using a free-trade instrument, rather than protectionism, as a lever against protectionist countries."⁹ The Council argues that the preferred access available to members of an FTA provides an incentive for other countries to engage in trade negotiations. This strategy of liberalizing trade is preferable to attempts to use threats of trade restrictions to induce other countries to negotiate: since such measures would impose costs on the home country, the threats would lack credibility. Furthermore, if implemented, they would invite retaliation.¹⁰

Dispute Resolution

Inevitably, disputes will arise in future economic relations between Canada and the United States. Similarly, disputes can be anticipated between either country and third countries. How might a bilateral agreement affect the future management of Canada's economic relations?

Simply because Canada and the United States seek to enter into an FTA agreement does not mean that their existing multilateral obligations under the GATT become irrelevant. Both countries would continue to manage their relations with third countries through the GATT. Similarly, GATT rules would still apply to bilateral trade. The U.S.-Israeli FTA agreement, for example, incorporates the common GATT obligations of the two countries. From a Canadian perspective, an FTA agreement is only attractive in terms of what U.S. Secretary of State Shultz refers to as "tighter trade disciplines" within the GATT framework.

If existing GATT rules are considered to be satisfactory to both countries on particular issues, then the bilateral agreement could incorporate