b) Increased competition. More open markets increase the level of competition faced by domestic producers. This lowers prices to consumers, improves product quality, and removes monopolistic distortions in the economy.

c) Greater variety in goods consumed, and greater efficiency through specialization in goods produced with economies of scale and product specialization.

d) Productivity gains. Opening markets to international trade promotes innovation, better use and adoption of improved organizational and technological methods, and incentives to shift more generally toward best practice methods, and facilitates the transfer of knowledge between countries.

The liberalization of foreign direct investment helps in the achievement of similar gains. Liberalizing FDI or alternatively removing restrictions to foreign investment is motivated in general by the pursuit of greater gains in efficiency, competition, and productivity enhancement. Most FDI has been liberalized through unilateral policy decisions or bilateral agreements specific to investment. The OECD reports that the 1990s saw over 800 such agreements. Many, if not most, of the Regional Integration Agreements which cover trade also, however, contain specific provisions covering the liberalization of FDI—this was certainly true in the case of the FTA and the NAFTA.

Despite the general case "for" trade and investment liberalization there are a number of economic arguments which have been advanced that suggest more open international markets, or more specifically more imports, are not always a good thing. Two of the most important arguments are: a) the possibility that trade liberalization can create unemployment or permanently destroy jobs, and b) the possibility that income inequality is increased as a consequence of freer trade. These potential "negatives" played a very prominent role in the debate on NAFTA and to a limited extent in the FTA debate. Both of these will be dealt with in this chapter.

The bulk of trade liberalization in the more recent past has occurred in the form of Free Trade Areas or Custom Unions—or more generally Regional Integration Agreements (RIAs). While there has been a great deal of discussion about the WTO since the completion of the Uruguay Round of the GATT in 1994, there has not been another substantial round of multilateral trade liberalization. Much of the hostility towards trade agreements in Canada has focused explicitly on the FTA and NAFTA. On purely economic grounds, multilateral trade liberalization is generally preferred to preferential trade liberalization because there is scope for an RIA to potentially hurt both some member and non-member countries through its *trade diverting impact.* A RIA is not therefore necessarily trade liberalizing, if the net result is less trade than occurred before the agreement. A RIA, by giving preference to member countries, at the expense of non-members, might reduce trade between member and non-member countries. There is a large debate as to how important these effects are, and in the case of NAFTA we will review the evidence on the important question of trade diversion costs and impacts on third parties. The World Bank, in its comprehensive study on RIAs called *Trade Blocs*, comes to the general conclusion that the need for deeper integration on a regional level implies that RIAs are here to stay and if anything will increase in importance. They generally endorse a concept called *open*