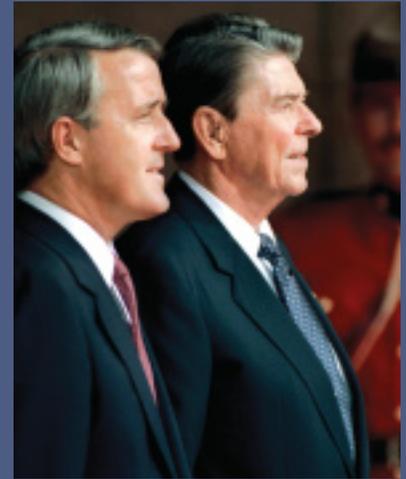


HOW FREE TRADE CAME TO CANADA: LESSONS IN POLICY ANALYSIS

Charles McMillan

It is 20 years since the negotiation of the Canada-US Free Trade Agreement, but before the two sides even came to the table, the political stars had to be aligned in the right direction. In Canada, the aggregation of political and economic forces began with the election of the Mulroney government in September 1984, and the recommendation of the Macdonald Commission for a “leap of faith” on free trade in 1985. In the US, the Reagan administration thought it could leverage trade talks in the multilateral arena by undertaking bilateral trade talks with Canada, its largest trading partner. And Brian Mulroney, who had opposed unfettered free trade during the Conservative leadership campaign in 1983, became its proponent in 1985. Charles McMillan, who was Senior Policy Adviser to the Prime Minister at the time, provides this revealing policy background on the origins of the deal.

Les négociations entourant l'Accord de libre-échange entre le Canada et les États-Unis remontent à 20 ans, mais il a fallu attendre la conjonction de nombreuses planètes pour que les parties consentent simplement à s'asseoir à la même table. Au Canada, la synthèse des forces économiques et politiques s'est amorcée avec l'élection du gouvernement Mulroney en septembre 1984, puis la Commission Macdonald a recommandé en 1985 de « franchir le pas » en direction du libre-échange. Aux États-Unis, l'administration Reagan a cherché à favoriser les négociations multilatérales en engageant d'abord des discussions bilatérales avec le Canada, son premier partenaire commercial. Et Brian Mulroney, qui s'était opposé en 1983 à la libéralisation des échanges pendant la campagne à la direction du Parti conservateur, s'est ravisé deux ans plus tard pour s'en faire le grand promoteur. Charles McMillan, alors principal conseiller politique du premier ministre, brosse un tableau révélateur des origines de l'entente.



The US-Canada Free trade Agreement (FTA), and its extension, the North American Free Trade Agreement (NAFTA), is passing an anniversary of sorts, celebrated by free trade proponents as a second-best option to a new multilateral agreement, and chided by opponents as the steady slide to economic dependence on the vast American marketplace. Canada and the United States, the two countries then sharing the largest trade flows in the world, broke new ground on several fronts — in agriculture, in investment, in tariff reduction, in services and in dispute settlement. At the time, the US-Canada agreement coincided with an enormous build-up in global protectionist pressures and, paradoxically, with the first case of a significant US bilateral trade agreement, given the difficulties of negotiating a new round of multilateral trade negotiations, the so-called Doha Round.

Any prospective agreement with the US on any topic, let alone something as central as trade, places the prospects for other countries to examine the US position. For Canada itself, despite the numerous economic studies promoting free trade, including the *bête noire* of Canadian nationalists, Professor Harry Johnston, in his 1962 opus, *The Canadian Quandary*, the 1971 study, *Looking Outward* by the Economic Council, and of course, the lead recommendations of the Macdonald Royal Commission in 1985, there was little sign that either Ottawa or the provinces were prepared to make any bold policy leaps. Indeed, with the single exception of Peter Lougheed in Alberta, none of the premiers saw free trade as a policy winner, and for the most part, most provincial governments were prepared to hide behind the implicit framework of tariff protection acceptable to the leading manufacturing jurisdiction, Ontario. Despite occasional rantings of policy analysts and a few Canadian CEOs, such

as Walter Light of Northern Telecom, free trade was simply not on the national agenda.

In the US, trade talks are only one side of a larger economic agenda. By 1975, the US was starting to feel the first signs of dramatic post-war shifts in the global economy. Richard Nixon faced the first dramatic shift, the devaluation of the US dollar and leaving the gold standard by abandoning the post-war Bretton Woods framework established in 1944. President Ronald Reagan started an inexorable trend to a “managed trade” framework governing such key sectors as textiles, automobiles and semi-conductors, where the key economic relationship was governed by the two biggest economies, the US and Japan. The two countries were mirrors of each other, rising surpluses and deficits, a creditor and debtor status, where their joint policies affected the global economy in such areas as exchange rates, capital flows and third world debt. Severe imbalances, in part influenced by OPEC, required new policy coordination and led to annual meetings of leaders, the G4, then the G5 and later the G7, including Canada. Just as the Reagan administration had to face severe Japanese industrial competition in traditional manufacturing (e.g., autos, cameras, motorcycles, radio and TV), and new sectors like consumer electronic, and industrial machinery (NCC equipment, robots), big business in the US saw an FTA with Canada as a side issue, secondary to trade pacts with Japan and Europe.

A new government in Ottawa, elected in a sweeping election victory on September 4, 1984, and a new Prime Minister with no specific promises or direct interest in bilateral free trade with the US, became leading proponents of an FTA in the next election, in November 1988. It remains a paradox that neither the Americans nor

the Canadian population were pushing for this agreement, and it wasn't the primary goal of either political leader in 1984. Indeed, the forces pushing the US administration were quite different than the policy drivers in Canada, and conventional ideology, economic or nationalist, weren't directly central. So why did the agreement succeed? As Harold MacMillan,

A new government in Ottawa, elected in a sweeping election victory on September 4, 1984, and a new Prime Minister with no specific promises or direct interest in bilateral free trade with the US, became leading proponents of an FTA in the next election, in November 1988. It remains a paradox that neither the Americans nor the Canadian population were pushing for this agreement, and it wasn't the primary goal of either political leader in 1984. Indeed, the forces pushing the US administration were quite different than the policy drivers in Canada, and conventional ideology, economic or nationalist, weren't directly central. So why did the agreement succeed? As Harold MacMillan, the British Prime Minister, would say, “Events, dear boy, events.”

the British prime minister would say, “Events, dear boy, events.”

In the run-up to Ronald Reagan's sweeping election victory in 1984, two issues dominated the American economy. The first was the deep recession in 1982, when interest rates climbed to double digits, and Paul Volker, the Fed chairman, declared war on inflation. The second issue was the growing problem of American competitiveness, in particular the growing inroads of Japanese producers in the American market

across a range of sectors: automobiles, consumer electronics, semi-conductors and steel. Across the industrial world, policy-makers recognized the fragility of the growing integration of the market economies. The symptoms of the problems were (and remain) deeply embedded with the problems themselves, namely, the value of the stock market, the devaluation of the world's most important currency, the debt crisis of the Third World and the intractable problems of monetary instability, i.e., major currency fluctuations and huge gyrations in capital flows. In the 1980s, the United States and Japan were the two major players shaping the biggest economic crisis of the post-war era.

The US and Japan were in fact at a watershed. Yet at a time when joint cooperation and policy coordination are essential preconditions for monetary and trade stability, Japan and the US had allowed their bilateral relationship to change. As a leading economist noted: *Japan is already challenging the United States with a major new drive toward creativity and leadership in advanced technology... Japanese bureaucrats and politicians will be sorely tempted to seek new avenues for national advancement.*

American officials will find it harder than ever to ward off self-defeating protectionist measures. The media will have a field day publishing the charges and countercharges of angry politicians. Public opinion in both nations could take an ugly turn. Traditional diplomacy will fail.

The growing integration between Japanese industry and American industry and the resulting management and technology linkages across the Pacific, to Japan and Southeast Asia, and eventually to China, point to

a dramatically different environment for multilateral or binational trade agreements. For two decades, Japan's balance of payments remained roughly in equilibrium, and the merchandise trade surplus was approximately \$35 billion. By 1983, riding a crest of phenomenal productivity and investment growth, Japan's trade surplus in one year equalled that of the previous

Politically, the forces challenging the US-Canada deal were uncompromising, not only from Canadian nationalists, but from provincial governments like Ontario. As Allan Gotlieb, Canada's ambassador to the US at the time, neatly put it, "In the US, there are those who believe that unilateralism is strength; in Canada, there are those who believe that bilateralism is surrender."

two decades. In 1987, the trade surplus approached \$101 billion — the largest in recorded economic history. In the US-Japan context, in the 15 years prior to 1986, two-way merchandise trade increased to \$115 billion, from about \$54 billion — a growth of \$61 billion. Japan's exports to the US accounted for \$53 billion of this \$61 billion, and US exports to Japan accounted for only \$8 billion, or less than 13 percent. Of this low amount, almost half, or \$3.5 billion, came not from car exports, not from sophisticated electronics, but from gold, sold for re-export from Japan.

Growing competitive problems at large, and the hollowing out of the manufacturing centre in the Midwest of the US, in key states like Michigan, Ohio and Illinois, placed severe political pressure for protection by both state governments and members of Congress, and Ronald Reagan responded with a series of "managed trade agreements" limiting Japanese imports to set levels.

For Canada, these US developments in the early 1980s were particularly ominous. Canada's dependence on the American market, and the centrality of North American integration in such key sectors as cars, energy and pulp and paper, forced governments at

all levels to worry about the new trade environment of the US. But events were also changing in Canada, but from different quarters.

Canada's own competitiveness had seriously deteriorated; unemployment was at historic highs; government deficits and national debt were virtually out of control. In early 1986, as the Canadian government decided

to enter into trade talks for a comprehensive free trade agreement with the United States, a succession of problems flowing politically from "managed trade" started to emerge with force. Japanese-American bilateral disputes added to the tension, especially in such sectors as steel, agriculture, semiconductors and automobiles.

However, there were also particular US-Canada sectoral disputes such as carbon steel and softwood lumber. These disputes greatly added to the stress of the "managed trade" approach, especially in light of the application of US trade remedy laws, which had the perverse effect of defining unilaterally what constitutes unfair trading practices. It was in this politically charged climate that Canada and the US undertook to negotiate the bilateral free trade agreement in 1986 between the two countries. It is the most important bilateral initiative since 1945, since the two countries share such a huge trade relationship. The essence of the deal has been amply reviewed elsewhere; it suffices to highlight certain features, namely reduction of tariffs over a ten-year period, free trade over time in energy, certain agricultural products and services; liberalized investment and government procurement; and new mechanisms

for dispute settlement, especially a binational review panel for appeals.

From a multilateral perspective, the US-Canada trade agreement offered a number of policy signals, some ominous for future US views on world trade policy:

1. Is the trade agreement the latest, but most concrete, evidence of American retreat into a Fortress North American policy, reinforced with potential bilateral agreements with Mexico and Canada? (These agreements followed earlier trade arrangements by the US, namely a bilateral deal with Israel in 1985 and the Caribbean Basin economic initiative.)
2. Is the trade agreement a clear policy alternative to the traditional multilateral approach of trade liberalization, wherein the US negotiates a series of bilateral agreements with like-minded countries? In fact, Treasury Secretary James Baker spelled out this approach quite boldly: "If possible, we hope...liberalization will occur in the Uruguay Round. If not, we might be willing to explore a 'market liberalization approach, through unilateral arrangements or a series of bilateral agreements...Other nations are forced to recognize that the United States will devise ways to expand trade — with or without them."
3. Is the US-Canada FTA the launch of a new US approach to initiate a broader policy framework between the United States and other countries, forgoing the traditional multinational trade agreements starting since 1945, the GATT agreements? Would the US prefer these bilateral deals, with Japan, with the European Community, as the basis of trade matters, but on the broader agenda of military, political and technological issues between the world's largest market economies?



Jack Goldsmith, McGill University

Fathers of free trade: Donald S. Macdonald, whose Royal Commission recommended the “leap of faith” on free trade, and Brian Mulroney, who as prime minister sold it to the country, together in 1999. Macdonald’s recommendations, writes Charles McMillan, “paralleled the policy initiatives” of the new Mulroney government in 1985, leading to the trade talks which ended with agreement in October 1987.

Prime Minister Yosuiro Nakasone’s January 1986 visits to Washington and Ottawa made clear that the Japanese objected to a “Fortress North American” policy framework, where discriminatory measures would be taken against third countries, especially Japan. Clearly, the Japanese knew the underlying bilateral issues facing Canada and the US, including the fact that so much of this two-way trade represents trade flows across subsidiaries of companies located on both sides of the border, i.e., within the framework of multinational subsidiaries, and special arrangements in other areas, such as the US-Canada Auto Pact, NORAD and the defence-sharing agreement.

The US-Canada trade deal tried to meet three tests. First, this bilateral deal advances multilateral negotiations at the GATT (which later became the WTO). In fact, the US-Canada agreements broke new ground on tariff barriers, investment, agriculture and services, and these areas may serve as a model at the GATT talks. Second, bilateral initiatives can be trade-creating, rather than trade-destructive, because it advances international trade rationalization. In the North American context, domestic subsidiaries on both sides of the border, rather than closing, as apocalyptic views have argued, will lead to product specialization and new market niches. Third, because exchange rates will be the primary fac-

tor determining investment flows, rather than trade barriers, further Japanese and North American integration will increase trade as each country adjusts its industrial structure based on real comparative advantage.

The starting points are obviously different. Canada, like most European countries, is trade dependent, up to 30 percent of GNP. Canada, alone among the G7 countries, relies heavily on unprocessed raw materials and a limited range of services. With the exception of automobiles, Canada has a relatively weak manufacturing sector, especially on such criteria as R&D performance, export marketing and financial capitalization. Canada’s domestic economy experiences high

foreign ownership, strong inter-provincial trade barriers and a small-scale industrial base outside the Toronto-Montreal corridor. For high-tech sectors, where economies of scale in production runs are central, Canada was the only G7 country without secure access to a market of 100 million consumers. Further, Canada's micro problems in the 1980s were an accumulation of neglect over the previous two decades. And politically, the forces challenging the US-Canada deal were uncompromising, not only from Canadian nationalists, but from provincial governments like Ontario. As Allan Gottlieb, Canada's ambassador to the US at the time, neatly put it, "In the US, there are those who believe that unilateralism is strength; in Canada, there are those who believe that bilateralism is surrender."

But are the antecedent conditions, i.e., those political and personality factors necessary for momentous change, present in the FTA agreement? Those conditions are instructive on this score. Much has been made of the Reagan-Mulroney personal relationship. It began during the June 1984 Washington visit by the then Opposition Leader Brian Mulroney, only a week after John Turner, himself a strong pro-American lawyer and former senior cabinet minister, succeeded the enigmatic Pierre Elliot Trudeau to the leadership of the Liberal Party. Mulroney had campaigned for the leadership of his own party throughout the spring of 1983 on a strong pro-US platform, and for changes on policy issues largely inimical to American companies — namely, Trudeau's policies on energy, foreign investment, NATO, intellectual property, Crown corporations and international trade. Personally, Mulroney was initially lukewarm on comprehensive free trade, but spoke openly and critically on bilateral trade restrictions in

sectors like steel, lumber, energy and agriculture.

Shortly after Mulroney was elected on September 4, 1984, with the largest parliamentary majority in Canadian history, Mulroney accepted the President's invitation for bilateral talks in Washington. At those meetings, President Reagan reiterated his 1980 initiative for a Canada-US-Mexico free trade zone, linking the peoples throughout North America to a new liberalized trade regime, however vague the details. At this point, exhausted by the long 58-day national campaign, and preoccupied by the need to form a new government and cabinet, Mulroney pushed only for a new bilateral process — an annual meeting of president and prime minister, and a quarterly meeting of Canadian and US foreign ministers.

The new Conservative government, in keeping with its campaign commitments, recalled Parliament on November 5, 1984, with a Throne Speech — an omnibus policy statement of legislative intentions, much

Mulroney had campaigned for the leadership of his own party throughout the spring of 1983 on a strong pro-US platform, and for changes on policy issues largely inimical to American companies — namely, Trudeau's policies on energy, foreign investment, NATO, intellectual property, Crown corporations and international trade. Personally, Mulroney was initially lukewarm on comprehensive free trade, but spoke openly and critically on bilateral trade restrictions in sectors like steel, lumber, energy and agriculture.

like a State of the Union address — and announced major new initiatives, including policies for competitiveness and liberalized trade. In a major and more detailed statement, the Mulroney government set out its national economic agenda — an economic framework based on market liberalization, downsizing of government, improved tax incentives and social policy reform. As part of the agenda pronouncements, the government launched a massive consultations exercise — a process to consult

Canadians directly on a whole series of economic reforms. The industry sectors were all-encompassing: housing, energy, forestry, small business, tourism, mining, fisheries. The policy areas covered a wide spectrum — tax reform, welfare policy, regional development, export financing, science and technology, and international trade. However, already facing American protectionist sentiments, trade policy became a central priority of the Canadian corporate community.

Over the next year, a series of events set the stage for launching the bilateral trade talks. They are instructive for understanding the political dynamics of how the free trade negotiations actually got started and what they imply for other bilateral negotiations. When the new Prime Minister spoke in New York on December 10, 1984, to the Economic Club, a group of elite American industrialists and bankers, hosted by David Rockefeller, the policy context for free trade had started to change dramati-

cally. For one thing, the new Prime Minister began to realize the sheer depth of US protectionist sentiment in Congress, as witnessed by the spate of bills then being introduced before both the House and the Senate. Moreover, the lobbying efforts of Canadian business groups — on lumber, agriculture, steel and fisheries — exposed the "finger in the dyke" nature of the exercise. The Americans were in no mood for trade rhetoric — least of all from their largest trading partner. The PM's New York speech,

A dramatic landscape photograph of a snowy mountain range. On the left, a dark, jagged rock face is partially covered in snow. A climber in dark gear is suspended in mid-air, having just jumped from the edge of the cliff. A rope is visible extending from the climber down towards the bottom left. In the background, a large, snow-covered mountain peak rises against a pale sky. In the bottom right corner, a high-speed train is visible on a track, moving through a valley. The overall scene conveys a sense of adventure and achievement.

« C'est mon train. »

Des milliers de
Canadiens sont
derrière les projets
de Bombardier.
Ils révolutionnent les
moyens de transport
du monde entier.
Et ils en sont fiers.

BOMBARDIER

that “Canada is open for business,” gave a strong pro-free trade signal on both sides of the border. Ironically, a concrete statement on free trade was deleted from the text of the speech.

Mulroney’s public views on free trade were heavily influenced by Ontario’s traditional protectionist stance, often cloaked in the guise of

As a Liberal politician, Don Macdonald had strong credentials as a staunch nationalist, a defender of Canadian interests. His report was released in September 1985, but Mulroney could have shut down the commission when he won his election in 1984. Its major recommendation was the advocacy of a comprehensive US-Canada free trade agreement. By coincidence, the report’s release to the public occurred the same week that Mulroney flew to Washington for his meeting with President Reagan.

Canada’s national interest. The new prime minister himself had opposed free trade during the leadership campaign in 1983, not so much on its economic merits as on its political perils. After all, it was a Conservative government under Robert Borden that had defeated the 1911 Laurier initiative on free trade with the United States. Ontario’s Premier, William Davis, was a strong Mulroney ally during the 1984 federal election campaign, but announced his resignation in the spring of 1985.

Davis left a de facto political leadership vacuum in Canada’s anti-free-trade movement. Alberta’s strong pro-free-trade Premier, Peter Lougheed, quickly seized the initiative. Indeed, at the February 1985 meeting between Mulroney and the ten provincial premiers held in Saskatchewan — only one month prior to the Reagan-Mulroney Shamrock Summit in Quebec City — Lougheed led the forces calling for a dramatic new initiative on bilateral trade. The new Ontario Premier, Frank Miller, was largely mute on the question and the pendulum quickly shifted in federal government circles — intellectually and politically, ven more so when David Peterson’s

Liberals defeated the Conservatives in the 1985 Ontario election.

Social policy reform in Canada had become the biggest political *cause célèbre* for the new government. Centring as it did on the famous Mulroney by-election statement in Central Nova, the Nova Scotia seat he borrowed from Elmer MacKay, that

Canadian medicare was “a sacred trust,” the defiant mood of social activists, reinforced by a senior citizenry with strong memories of double-digit inflation, challenged the new government’s attempt at policy reform, which focused on a scheme for de-indexing seniors’ pensions. The ardour for dramatic reform in social policy soon died, especially after a rancorous Question Period in December 1984. The free trade issue, by default, moved to the forefront of the government’s reform agenda.

But other events were also at work — another product of Mulroney’s good luck. In 1982, the Trudeau government had appointed a blue ribbon Royal Commission on Canada’s economic future. Trudeau selected Donald S. Macdonald as chairman. Macdonald had been close to Trudeau — as finance minister, energy minister, personal friend and go-between to the Canadian business community.

But as a Liberal politician, Don Macdonald had strong credentials as a staunch nationalist, a defender of Canadian interests. His report was released in September 1985, but Mulroney could have shut down the commission when he won his election in 1984. Its major recommendation

was the advocacy of a comprehensive US-Canada free trade agreement. By coincidence, the report’s release to the public occurred the same week that Mulroney flew to Washington for his meeting with President Reagan.

It was in this larger context that the most radical policy agenda item surfaced — free trade with the United States. The Macdonald Commission, widely reported and praised in the Canadian media, paralleled the policy initiatives launched in the November 1984 Throne Speech and Economic Statement, despite their separate origins. By the early spring of 1985, Mulroney and his cabinet had begun to rethink and refocus Canada’s trade policy. Important initiatives in areas such as export promotion, trade enhancement in the Pacific Rim, and export financing had been introduced. But the central role of US-Canada trade policy — and the Canadian options of functional trade, bilateral sectoral trade or comprehensive free trade — had become the basis of the government-industry consultations exercise launched in January 1985.

To the surprise of the International Trade Minister, James Kelleher, his department and indeed the entire cabinet, the consultations exercise produced an overwhelming consensus in the Canadian business community to push for a bilateral trade agreement — the cause, lest it be misunderstood, of the Liberal defeat on trade reciprocity in 1911. This time, the Canadian private sector and many supporters among labour, academe, and some provinces, moulded a constituency for a free trade agreement with the US. The Prime Minister seized the initiative and announced the launch of the US-Canada free trade initiative on September 26, 1985.

Canada’s detailed preparations for the actual negotiations — including the monitoring work of a special

cabinet committee, 15 separate sector trade advisory groups and an umbrella advisory committee of private sector personnel — all strengthened the government's hand for specific negotiating issues. Joe Clark was placed in charge of the special cabinet committee, which could draw on external and internal advice, including from the main negotiator, Simon Reisman. At the start, the aim was to reduce the

In a perfect world, for small countries like Canada negotiating bilateral free trade agreements with the biggest economy in the world, all instruments of government need a central focus. Unfortunately, in the practical world, other factors are at work. The Mulroney government faced these practical issues on a daily basis.

political pressures for exemptions by placing all issues on the bargaining table, including cultural issues and investment subsidies. The negotiators on both sides of the table soon recognized what the political masters were only too quick to underscore: threatened industries, after all, are not only job-intensive, they are vote-intensive.

In a perfect world, for small countries like Canada negotiating bilateral free trade agreements with the biggest economy in the world, all instruments of government need a central focus. Unfortunately, in the practical world, other factors are at work. The Mulroney government faced these practical issues on a daily basis.

The huge majority and the largest cabinet in Canadian history led to a succession of scandals, and six ministers resigned in the first four years. The government initiated a new constitutional accord, the Meech Lake agreement, which on its own caused political discord among significant stakeholders. Constant budget deficits, amounting to \$30 billion a year, and rising national debt angered conservative deficit hawks. Media foreplay by the trade negotiators, and some unfortunate media comments by Simon Reisman, angered many senior cabinet ministers. And many members of the

Conservative caucus, worried by what a trade agreement might mean for industries in their local riding, placed significant time burdens on the Prime Minister and the PMO.

Three time lines were in fact well underway, and each had only some over-lapping personnel to coordinate Canadian responses within the government. The first, of course, was the negotiating time period, where both Reagan

and Mulroney were totally committed. For Ronald Reagan, who wanted a significant defence agreement with Mikhail Gorbachev and the Soviet government before his term expired, a failure to sign a deal with Canada was not a preferred option. And Mulroney needed a deal for the pending 1988 election. The second time line was the 1988 election, and Mulroney's desire to win an unprecedented, successive two-term majority government, forgoing the disastrous 1962 election when John Diefenbaker not only lost his majority but most of French Canada, including Quebec. The third time line was to implement an enormous policy agenda, and supportive policy to trade adjustments in such areas as science and technology, regional economic agencies, small business and training, while keeping Conservative caucus MPs supporting the FTA.

In the end, the 1988 election was a pivotal turning point for the Canadian economy. Mulroney won 170 seats out of an enlarged House of Commons, and carried all of Alberta's 26 seats, and most of Quebec, 63 of 75. Predictably, the six cabinet ministers who lost their seats came from regions which thought they would be economically vulnerable to trade competition and loss of local jobs. Ironically, however, close analysis of these

regions show that other factors were at work. A main factor was that an FTA would lead to the potential abandonment of Canada's medicare program and that pushed traditional supporters to vote against the Conservatives.

Virtually all the shibboleths against free trade turned out to be illusory. Despite plant closures, as firms rationalized their production runs, expanded production to meet new markets and introduced powerful new technologies, trade expansion, job creation and trade growth reached unprecedented levels, doubling every eight years. Canada's biggest provincial economy, Ontario, overtook Michigan as the biggest auto and truck producer.

It is the largest information and communication technologies (ICT) sector in Canada, and the world's third biggest, rivalled only by New York and Silicon Valley in California. Canada's smallest province, Prince Edward Island, where all Conservative members lost their seats in 1988, has unprecedented export growth, high-tech job creation and new business formations in aerospace and biotechnology, thanks to supportive policies like the fixed link (the Confederation Bridge), new airport facilities and R&D science policies.

More to the point, now that the FTA and NAFTA are firmly in place, it is difficult to find significant political leaders who opposed the FTA policy in 1988 still in agreement with that position today. Brian Mulroney might take comfort in the words of Winston Churchill: "To improve is to change; to be perfect is to change often."

Charles McMillan, professor of international business, Schulich School of Business at York University, and currently a Fulbright Scholar at Brandeis University, was senior policy adviser to Prime Minister Mulroney from 1984-1987, the period in which Canada undertook the free trade initiative with the United States. His latest book is The Strategic Challenge.