

We must investigate the likelihood of rationalization strategies in terms of renewing the branch plant's economic viability within environments distinguished by reduced trade barriers. The two environments are bilateral free trade and sectoral free trade.

Bilateral free trade

A bilateral free-trade area for Canada and the United States establishes the environmental pre-condition for corporate choice of a rationalization strategy. This strategic choice is a response to the new environment incorporating a new international division of the production process. The economic and technical characteristics of production processes are such that greater divisibility facilitates greater rationalization. Economic influences on divisibility result from differences in input costs that exceed the transportation costs between production locations. In Canada, natural resource input costs are relatively low, while labour and capital costs are relatively high. Consequently, rationalization strategies are most likely to be adopted by MNEs with outputs requiring a large amount of natural resources. However, sectors producing these outputs are not characterized by inefficient Canadian branch plants. In the first section the tobacco products, leather products, knitting mills, and clothing sectors were identified as those where interdependence induced by tariffs was probably present. Competitive pressure on foreign-owned knitting mills, clothing industries and leather product industries originate from newly industrialized countries rather than the United States. Hence, viable corporate rationalization strategies for these industries would require branch plant