

agreement establishing principles and procedures for negotiating trade issues is discussed within each sub-section.

Foreign control of Canadian industry
within a Canada-United States free trade area

Eliminating trade barriers between Canada and the United States creates a bilateral free trade area. An immediate issue is how this new environment will influence foreign control of Canadian industry. Specifically, would a free trade area stimulate or diminish foreign ownership or leave it unchanged?

Foreign control expands or contracts in response to changes in the interdependence between foreign inputs and domestic inputs of the production process. From a Canadian perspective increased interdependence between foreign owners and domestic inputs often implies increased foreign ownership. Conversely, diminished interdependence reduces foreign ownership. The impact of a free trade area on foreign control thus depends upon the resultant interdependence between foreign owners and Canadian resources.

Interdependence between inputs derives from the technical characteristics of the production process. These characteristics specify the division of labour between input activities. Technical improvements in production processes often involve a finer division of labour and provide greater potential for international interdependence. A Canada-United States free trade area would increase competitive pressures and thereby stimulate the adoption of more technically