

Foreign control of Canadian industry within Canada-United States sectoral or functional free trade agreements

Sectoral or functional free trade agreements restrict trade liberalization to specific sectors or functional areas. Sectoral free trade has an impact on foreign ownership according to the resulting changes in international interdependence of each liberalised sectoral production process. Functional free trade is trade liberalization in functionally defined areas. The consequences for the level of foreign ownership depend upon how the functionally defined areas relate to international interdependence of production processes.

Sectoral free trade agreements currently operate within both the Canada-United States automotive industry and the Canada-United States defence production industry. Since the two federal governments are the sole purchasers of defence industry output this sectoral agreement is a special case. The 1965 Canada-United States automotive agreement stimulated changes in corporate strategies within the automotive industry that comprehensively rationalized North American production. However, this sectoral agreement had virtually no impact on the level of foreign ownership. Recent sectoral free trade discussions have identified four "priority sectors" for possible trade liberalization: steel, urban mass transit equipment, farm machinery, and traded computer services.¹⁰ The potential impact of sectoral free trade within these sectors on levels of foreign ownership ultimately depends on whether removal of trade barriers makes each sectoral production process relatively more or less internationally interdependent. If interdependence between American owners and Canadian