

safeguard provisions that specify the maintenance of Canadian production locations. However, the knitting mills, clothing, and leather product sectors that are characterized by inefficient branch plant operations probably require rationalization by MNEs located in newly-industrializing countries. As a result, sectoral free-trade agreements with the United States could not incorporate viable rationalization objectives.

The tobacco products sector is more amenable to rationalization through a sectoral free-trade agreement with the United States. The sectoral agreement could be readily modified to incorporate both rationalization objectives and rationalization instruments. Nonetheless, a sectoral agreement for tobacco products would require a concurrent bilateral agreement for removing non-tariff barriers because of their key importance in this sector.

Sectoral free-trade discussions in Canada have not identified priority sectors in terms of rationalizing inefficient branch plants. The priority sectors of steel, urban mass transit equipment, farm machinery, and traded computer services have been identified in terms of requirements for large scale production and export potential. Hence, within these sectors rationalization of Canadian operations is not a relevant corporate strategy. Canadian foreign direct investment in the United States within the priority sectors is probably insufficient to induce rationalization of Canada-United States production.

Functional free-trade agreements encompassing bilateral reductions in governmentally-imposed non-tariff barriers have more substantial implications