

purchases by MNEs in newly industrializing countries. Corporate rationalization of the Canadian branch plants necessitates foreign investment from outside the proposed bilateral free-trade area.

Public policy on foreign investment screening could be modified to incorporate corporate strategic rationalization criteria if the free-trade option was chosen. This adaptation of screening criteria would also require negotiation with the United States to avoid competitive pressures for the attraction of foreign direct investment that would rationalize inefficient operations.

Tobacco products are subject to substantial non-tariff barriers in addition to tariff barriers. Thus, Canadian operations differ from the typical branch plant operation induced solely by tariff protection. A viable rationalization strategy for American MNEs in the tobacco products sector would require prior agreement for removal of non-tariff barriers. This could be achieved by a concurrent choice for a bilateral agreement that would establish principles and procedures for elimination of non-tariff barriers.

Sectoral or functional free trade agreements

Sectoral free-trade agreements could establish formal conditions for adoption of corporate rationalization strategies. The Canada-United States automotive agreement is an outstanding example of an international sectoral free-trade agreement designed to achieve strategic rationalization objectives. The instruments within the agreement to fulfill these objectives are the