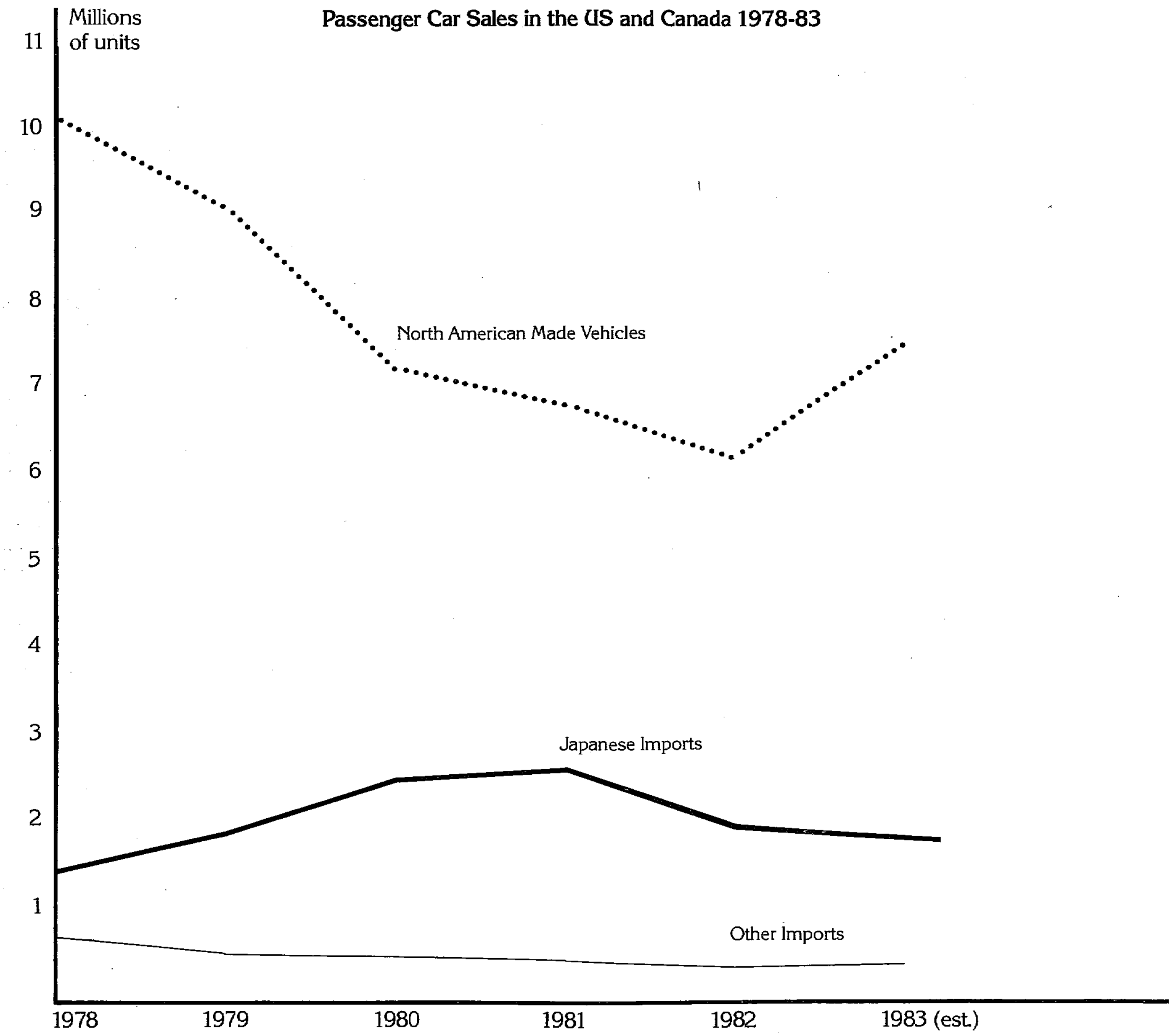
that was the natural equilibrium point. Canada would be better off denominating its currency as, e.g., the *drachma* to shatter the illusion of parity.

One explanation of these attitudes on the part of industry is that sovereign risk in Canada is seen to be very high, and therefore an extraordinary premium on return on investment is required. But regardless of the reasons for extant for Canadian plants to remain open at the expense of US plants.

2. There will be no need for new automotive capacity in North America because of the flat market (discounting the cyclical recovery) forecast through the eighties and because of continuing high levels of import penetration — soon to be reinforced by captive Big Three imports. This is



Sources: Motor Vehicle Manufacturers' Association, Ward's Automotive Reports, Statistics Canada.

the bias towards the US the fact remains that it underscores corporate decision-making. This should be borne in mind when considering the following impacts on Canada:

1. With product differentiation as the major source of non-tariff protection virtually eliminated, and tariff protection declining by 40 percent through to 1987, import pressure on Canada can only increase. Declining sales in Canada for North American product reduces in turn the manufacturers' production requirements under the Autopact and thereby eliminates guarantees that are otherwise particularly the case for automotive assembly, of which the Canadian industry has a disproportionately larger share than parts production.

3. Offsetting joint ventures with Japanese and European companies offer little opportunity for Canada at this time because of the economic and political pull of the US market. Moreover, increased parts sourcing by the Big Three from Japan and Europe will adversely affect Canada's aspirations to increase output of high value-added engines and drivetrains. For example, recent decisions by