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The Relevance of the AutoPact to Other Sectoral Arrangements

by Philip H. Trezise *

I. INTRODUCTION

Looked at solely in terms of the subsequent growth of trade, the 1965 Automotive Products Agreement between the United States and Canada must be taken to have been one of the most successful tariff negotiations in history. The value of Canadian-American trade in vehicles and parts rose from \$705 million in 1964, the last full year of customs duties, to \$35 billion in 1984. Adjusting for intervening price increases, the volume of two-way automotive trade appears to have grown about twenty-four times since 1964,¹ a rate far greater than that of bilateral trade otherwise.²

Common sense tells us these developments cannot have been independent of the provisions of the Agreement, the most important of which called for the mutual elimination of tariffs on vehicles and component parts. Therefore, the least ambiguous of the lessons to be drawn from post-Agreement events is that tariffs do indeed matter.

This would seem to be a self-evident conclusion, but the prevailing wisdom is to devalue tariff reductions as a negotiating objective.³ The experience, however, of Canadian-American automotive trade, to say nothing of the European Community and the European Free Trade Association, supports the proposition that the removal of import duties can powerfully stimulate trade between nations. There is no reason to suppose that the world has so changed as to invalidate this proposition today.⁴

It is not necessary, of course, and certainly not prudent, to expect that further sectoral free-trade arrangements between Canada and the

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¹ Using the U.S. deflator for the auto sector (1972=100): statistics for 1964 from DEP'T OF COMMERCE, NATIONAL INCOME AND PRODUCT ACCOUNTS, 1929-1974, 287 (1975); and for 1984 from DEP'T OF COMMERCE, SURVEY OF CURRENT BUSINESS, 16 (table 7.8) (Jan. 1985).

² Bilateral trade, exclusive of autos, tripled between 1964 and 1984 (with values adjusted by the export and import deflators). DEPT. OF COMMERCE, ECONOMIC REPORT 1967, 309 (table B-82); DEPT. OF COMMERCE, ECONOMIC REPORT 1985, 347 (table B-100).

³ See, e.g., R. GREY, TRADE POLICY IN THE 1980'S: AN AGENDA FOR CANADIAN-U.S. RELATIONS, (C.D. Howe Institute, 1981).

⁴ See generally P. Morici and L. Megna, *U.S. Economic Policies Affecting Industrial Trade: A Quantitative Assessment*, NATIONAL PLANNING ASSOCIATION, REPORT No. 200 (1983).

United States could generate the spectacular rates of increase in trade volume seen as a result of the AutoPact. The automotive sector had and has characteristics not likely to be reproduced elsewhere. Nonetheless, if negotiations can identify areas where tariffs can be eliminated—or realistically scheduled for elimination—the likelihood is that trade would then noticeably increase. In most circumstances, this increased trade will depend on the attainment of higher levels of efficiency in the sectors where tariff barriers have been dropped.

Caution is in order, however, before making the conclusion that the Agreement provides grounds for recommending additional sector-limited free-trade between Canada and the United States. The fact that there have been no new sectoral agreements in the twenty years since 1965 ought itself be a signal that the conditions for successful negotiation may not be easy to achieve. Beyond that, the situation of the North American auto industry and the environment in Washington and Ottawa in the mid-1960's were in some respects special, as were certain features of the eventual Agreement. Furthermore, whatever gains and benefits can be said to have followed from free-trade in automobiles, it is very doubtful the sectoral approach can be made economically preferable to the possible alternatives: either a phased, across-the-board move to zero duties in Canadian-American trade, or a significant multilateral dismantling of trade barriers.

II. THE AUTO PACT NEGOTIATIONS

To pursue the argument further requires a brief discussion of the circumstances in which the Agreement was reached. In 1964, per capita disposable income in Canada was 67% of that in the United States. The number of motor vehicles per person was 71% of that in the United States.⁵ That is, although Canada was a markedly poorer country than the United States, Canadian consumers had a slightly more pronounced preference for automobile ownership than did Americans.

A preponderance of the vehicles driven in Canada were produced by General Motors, Ford, and Chrysler—primarily, but not exclusively, in their Canadian assembly plants. These plants operated under a 17.5% tariff on imported vehicles and a similar, or sometimes higher, duty on automotive components. These tariffs, together with a Canadian “content cum rebate” provision, made automobile assembly in Canada profitable.⁶

However, the total Canadian market for new cars, trucks and buses—imported and domestically produced—in 1964, was only 711,000 vehicles. Imports, principally from Japan and Western Europe, accounted for 19% of these. Vehicles assembled in Canada were thus less

⁵ C. BEIGIE, *THE CANADA-U.S. AUTOMOTIVE AGREEMENT: AN EVALUATION*, 12 (1970).

⁶ *Id.* at 16-17.

than 600,000.⁷ Most of this total was divided among the Big Three, each producing the multiple models demanded by the Canadian public. The optimum scale for assembly of a single model was then between 180,000 and 200,000 units per year.⁸ Obviously, by North American industry standards, none of the Canadian operations could have been close to having efficient production.⁹

Canada had within its power a partial answer. It could have cut the tariffs on imports to a low (or zero) level, making it feasible for manufacturers to concentrate Canadian production on a narrow range of products for domestic sale and export while meeting the consumer preference for a wide choice of models by imports. However the American tariff, while lower than the Canadian, (6.5% on cars and 8.5% on trucks and vehicles parts) was a sufficient barrier to close off this potential avenue to greater efficiency.

During the decade preceding the negotiation of the AutoPact, the government in Ottawa had been increasingly preoccupied with the perceived problem of its external trade deficit, a sizable part of which could be ascribed to trade in the automotive sector. In 1962-63, as a means of coping with what was viewed in Ottawa as a potentially untenable payments situation, the Canadian government established a program of tariff remissions on automotive imports. These remissions were contingent on the achievement of parallel increases in automotive exports.

A few months after it had been put fully into operation, this program attracted a petition from a Wisconsin radiator producer for countervailing tariff relief under the "Bounty or Grant" section of the Tariff Act of 1930.¹⁰ It was clear from the beginning that the Canadian remission scheme would be found to be a countervailing duty—which would have quashed the scheme. What would have happened next is less clear. The Canadian government considered alternatives, but decided on none because, at the American initiative, talks were begun to consider the possibility of an automotive free-trade sector.

The reasons for Washington's decision to explore the free-trade route have relevance today. Paramount was the disinclination to have a confrontation with Ottawa over a countervailing duty. It may be recalled that Congressional and industry fascination with the countervail authority was less fervent then, which made the search for an alternative easier to undertake than would be true in a similar situation today. There was also, no doubt, some feeling among free-traders in the Administration that a breakthrough in a major sector would be a significant step

⁷ U.S. INT'L TRADE COMMISSION, REPORT ON THE U.S.-CANADIAN AUTOMOTIVE AGREEMENT: ITS HISTORY, TERMS AND IMPACT (tables A1, A43, A55, A74) (1976).

⁸ See generally L. WHITE, THE AUTOMOBILE INDUSTRY SINCE 1945 (1971).

⁹ The current chairman of General Motors Corp. has said that in 1964, GM of Canada produced 20 models and a total of 334,000 vehicles. R. B. Smith, Remarks before the Automotive Parts Manufacturers' Association of Canada (Jan. 16, 1985).

¹⁰ See U.S. INT'L TRADE COMMISSION, *supra* note 7, at 66-69.

toward the assumedly desirable objective of a free-trade area in North America.

Some of the participants simply felt that the potential for creating a more efficient North American auto industry made the effort worthwhile. Least important was pressure from Detroit, even though the Big Three could have expected to have been the first losers if Canada had chosen to react harshly to a countervailing duty (perhaps by boosting the domestic content requirement to 90%). The companies were consulted, as were the parts makers, but not until after the initial discussions with the Canadians had shown that agreement might be possible.

A final note must be made about the political environment in the United States at that time. After the intergovernmental agreement had been reached and signed, the Johnson Administration still had to obtain Congressional approval in the form of an enabling statute. This could have been a serious obstacle, especially after the side arrangements between the government of Canada and the auto companies had been made public. But the Big Three and many parts producers favored the agreement and, most important, the Administration was still living in the highly favorable climate created by LBJ's 1964 landslide election win. Although the vote in the Senate turned out to be uncomfortably close, there was never any real doubt about the outcome.

These were the rather unique conditions surrounding the 1964 negotiations, which in fact were completed within a matter of six months. To summarize:

- 1) We were dealing with a major industry, dominated by a few large companies which operated in both countries and produced virtually identical products in each.

- 2) Tariffs clearly were a major obstacle to integration and greater efficiency. The Canadian segment had no practical way to achieve the specialization and scale economies needed to bring its higher costs down as long as the tariff regimes were in place.

- 3) The countervailing duty case gave momentum and urgency to the search for another solution. This mattered particularly for the United States officials, because there was the threat that a court order would be issued to force the application of the Tariff Act to Canadian imports.

- 4) Finally, the political circumstances were right, if not quite ideal.

It is fair to say that these conditions cannot all be replicated for sectors today. But every sector is, in some respects, unique. The lesson is not that other sectoral agreements are infeasible because they will differ from automobiles, but rather that it would be wrong to attach much weight to an event now twenty years in the past. The auto talks succeeded in 1964 for reasons peculiar to the time.

A further question is whether the Agreement—as it has worked practically—represents a positive or negative factor in relation to possible new sectoral trade arrangements. As has been seen, the Agreement

was followed by, and to a large degree responsible for, a huge expansion of trade in the automobile sector. At the same time, its operation was long accompanied by highly vocal misgivings in both countries. A lesson is to be found there as well.

III. EVENTS SUBSEQUENT TO THE AUTOPACT

Automotive free-trade with Canada was inaugurated in 1965 as America's merchandise trade balance began its slide toward deficit, after decades of surpluses. In 1964 the surplus with the world had reached a peak. During the rest of the decade its trend was downward until, in 1971, the United States had its first trade deficit of the century.

In retrospect, the decline in the trade surplus was an inevitable result of the long boom that had begun in 1961 and the inflation which gathered strength during the war in Vietnam. The fashion of the time, however, was to focus on the misconduct of American trading partners—especially that of the two largest, Canada and Japan. A positive trade balance with Canada was a hallowed feature of the balance of payments. By 1968, however, this most accustomed of trade figures had become negative, to the then astounding amount of one billion dollars. The statistical measures used at the time showed a negative balance in automotive trade of \$155 million, a swing of \$700 million from the 1965 surplus of \$653 million. Moreover, from 1968 on the auto sector balance, viewed from the American side, worsened. It was not to return to surplus until 1973.¹¹

The circumstance of a deteriorating merchandise balance in general, and the turnaround in trade with Canada in particular, brought renewed attention to features of the Agreement that had come under heavy criticism in the Senate during the debate on the enabling legislation. These were of two kinds. The Agreement itself contained "safeguards," insisted upon by the Canadian side, intended mainly to set a floor on automobile production in Canada. In addition, the American owned auto companies had committed themselves separately to an increase in Canadian production. They had agreed to raise the total of Canadian value-added by \$220 million over the 1964 level by the year 1968.

I will defer comments on the actual impact of and justifications for the safeguards and the ancillary commitments, other than to note that they were, of course, restrictions on free trade. The 1968 "comprehensive review" called for in the Agreement left the restrictions untouched, as did further talks in 1969. Within the Executive Branch, and among some members of Congress as well, the view hardened that the Canadians not only had rigged the Agreement in the first place but now were

¹¹ A joint study in 1970 led to a revision in the method of accounting for trade in vehicles and parts under the Automotive Agreement. The revised method showed a diminishing U.S. surplus between 1966-69 and actual deficits between 1970-72. *Id.* at 315 (table 103).

acting in bad faith by refusing to modify in any way the terms which had "unfairly" converted the American trade surplus into a deficit.

Nowhere was this view held more fiercely than in the Treasury Department, the defender of the beleaguered American dollar. (The Treasury's *animus* against the Agreement may have been the greater because it was Treasury officers who had presented the Administration's economic case for the enabling legislation in 1965. The testimony had included an assurance to the Congress that our surplus in bilateral automotive trade would be essentially unchanged through 1968.) At the Camp David meeting in 1971, where the decision was taken to leave the Bretton Woods form of the gold standard and to impose a temporary tariff surcharge, a further and apparently less definitive decision was made to announce the intention of abrogating the Agreement. A Treasury press release, which included this announcement, had already been run off for distribution before protests from the State Department caused its removal and the project abandoned.

This rescue did not end the controversy. Proposals to repeal the enabling legislation appeared regularly in the Congress. One of these was included in 1970 trade legislation and came close to being enacted, dying only in the last days of the session. In 1975, the Senate Finance Committee had the International Trade Commission prepare a "thorough analysis" of the workings of the Agreement, with particular emphasis on whether Canada had "fully complied with its letter and spirit by phasing out the so-called 'transitional provisions.'" The Commission reported back, in effect, that Canada had not done so.¹²

With the passage of time, however, the opposition in the United States has diminished. After 1972, the sectoral trade balance returned to surplus, which in itself mollified some of the critics—and evidently gave the Canadians a turn at being the grievors. Now, although the 1982-84 automotive balance has registered an extraordinary swing to a Canadian surplus, there has been no outburst of any kind on this side of the border.

Nevertheless, the hostility that was aroused in the earlier period is relevant to the outlook for either new sectoral agreements or an across-the-board free-trade understanding. It will be necessary to expect that the closest scrutiny will be given to clauses or commitments which can be interpreted as being one-sided in favor of Canadian industry. The American negotiators will have to be wary indeed of accepting anything that could be seized upon as appearing to give an "unfair" advantage to Canada. One assumes, of course, that both parties to any new agreement will have to make provision for especially sensitive sectors, and for the anticipated difficulties of actually moving to free-trade. If the resulting arrangements can be shown to be balanced, there should be no great difficulty. But it would be unwise to suppose that any transitional provisions will be accepted on faith by the American Congress.

¹² See U.S. INT'L TRADE COMMISSION, *supra* note 7, at 359.

IV. RESULTS OF THE AUTOPACT

This legacy from the 1965 Agreement is a reality, entirely apart from the substance of the American complaints. When the Agreement was being negotiated, many of us recognized that significantly lower wage scales, together with the evident possibilities for productivity gains, would make Canada relatively attractive to the auto industry for investment and expansion. Assurances to the Congress that the trade balance would be unchanged were made plausible only by assuming that the Canadian car market would continue, for the time being, to grow more rapidly than the American. When this assumption was not realized, the perfectly foreseeable consequence was that the balance shifted noticeably, if temporarily, to Canada. Thus the companies' promises to increase output in Canada were little more than statements that managements would pursue the profit maximizing policy which their stockholders expected of them.

The Canadian negotiators made their case for the safeguards and commitments principally on the assertion that the company managements would tend to locate in the United States, either by habit or because of nationalistic sentiments. They said Canada needed insurance against this supposed readiness to forego, prospectively, more profitable alternatives. But, as Carl Beigie has pointed out, the industry's commitments to Canada could hardly have been onerous, since they were in nearly all cases much oversubscribed.¹³ What happened was what might have been expected—the firms found it advantageous in the first instance to expand operations in a country where wages were lower and productivity prospects favorable.

Apart from these commitments, which were made in side letters and were not part of the Agreement, the safeguards with which Canada surrounded the Agreement had as their principal effect the skewing of production toward assembly and away from component parts. The means used was to define an auto "manufacturer" in special terms: 1) it would have to produce, in Canada, a high fixed percentage of the vehicle sold in Canada; and 2) it would have to achieve Canadian content (value added) in vehicles produced in Canada in an absolute dollar amount no lower than had been the case in 1964. Failure to meet these definitional requirements would mean failure to qualify for duty-free treatment.¹⁴

Neither of these restrictions prevented rapid progress toward integration of Canadian and American automotive production. The floor on vehicle production in Canada could be met by concentrating on the assembly of a few models, exporting the surplus, and importing the remain-

¹³ BEIGIE, *supra* note 5, at 97-106.

¹⁴ A relatively minor restriction imposed by Canada was to insist that passenger cars, trucks, and buses be treated as separate classes of vehicles, each with its own production-to-sales ratio. The effect was to prevent a producer from discontinuing, for example, truck assembly in Canada in favor of passenger cars. This provision was a clear vote against efficiency.

ing models needed to meet the wishes of Canadian consumers. The content requirement was truly transitional, since its constraint would diminish as vehicle output rose.

Handed these specific incentives, the auto companies sensibly put their emphasis on the production of finished cars, trucks and buses. They had assembled 666,000 cars, trucks and buses in 1964—with exports and imports to and from the United States negligible. Ten years later, after the effects of the side commitments and the transitional requirements had been fully assimilated, vehicle output had reached 1.5 million units, while vehicle imports from the United States were 650,000 and exports 900,000. By that time, the trade pattern which had emerged was one of sizable Canadian positive balance in vehicle trade—\$900 million in 1974—and a considerably larger American surplus in the parts trade—\$2.1 billion the same year.¹⁵

It is by no means evident that this represented the most efficient allocation of resources in Canada. David L. Emerson,¹⁶ has argued persuasively that when labor, capital, materials and transport (to market) costs were compared, the Canadian advantage was quite strong in parts and accessories manufacturing, whereas the northeastern United States was a more cost-efficient location for assembly operations. That is, sectoral free-trade, minus the Canadian restrictions, would likely have led to relatively more production and employment in the parts segment of the industry. (Emerson believes that employment in Canada would have been greater in that case.) Moreover, during the first dozen years of the Agreement, auto prices in Canada were consistently and significantly higher than in the United States. If, as is also plausible, the differential existed because the manufacturers were seeking to recapture higher Canadian production costs, then the Canadian consumer, as well as the Canadian economy generally, was a loser from the limitation placed on full free-trade.

These are hypotheses, not proven facts. Even if they are correct, it remains true that the Canadian part of the North American industry did gain considerably in efficiency from the reshuffling that took place as a result of the elimination of tariffs. By now, after twenty years of tariff-free trade, the various sections of the industry have no doubt made further adjustments. It is not unlikely that the allocation of automotive production in Canada now closely approximates that of a complete free-trade situation (though in an oligopolistic industry).

The point, however, is that the effort to promote and protect what were considered to be basic Canadian economic interests may have been

¹⁵ U.S. INT'L TRADE COMMISSION, *supra* note 7, at app. A; TENTH ANNUAL REPORT OF THE PRESIDENT TO THE CONGRESS ON THE OPERATION OF THE AUTOMOTIVE PRODUCTS TRADE ACT OF 1965, 13 (1977).

¹⁶ D. EMERSON, PRODUCTION LOCATION AND THE AUTOMOTIVE AGREEMENT (Economic Council of Canada 1975).

misdirected and surely was overdone. That there were strong political pressures at work¹⁷ may explain why the effort had to be made, but it would be wrong to assume that the special features in the automobile instance provide a desirable model for other possible sectoral agreements.

V. THE PROSPECTS FOR FUTURE TRADE AGREEMENTS

Where should U.S.-Canada trade policy go from here? The AutoPact has survived and prospered during its twenty years, in spite of periodic outbursts of dissatisfaction from one or the other parties. Integration of North American auto production has created a situation in which neither the companies, nor the governments, would be ready to contemplate the disruption which would be caused by restoration of tariffs.¹⁸ Japanese competition and onrushing technology are changing the industry. But, for the immediate future at least, the Agreement appears to be secure. Even a determined effort to get at the American trade deficit by a general surcharge or similar restrictive action would almost surely have to exclude Canadian automotive products.

Then why not pursue additional sectoral arrangements, as was tentatively proposed by Ottawa in 1982-1984? For all its problems, sectoral free-trade in autos has worked well. A successful negotiation covering other industries could widen the area of Canadian-American free-trade and shield the sectors concerned from some, if not all, future trade-restrictive decisions made in Washington or Ottawa. Moreover, some of the reasons for opposing sectoral agreements are not compelling.

It is often observed that most Canadian-American trade is already free of tariffs: the more or less authoritative figure is that once the Tokyo Round reductions have been put in place, 80% of U.S. imports from and 65% of exports to Canada will cross the border duty free.¹⁹ That being so, why go to the trouble of negotiating further?

The argument is that either the remaining dutiable products are not important or the applicable duties are so low as to be of little moment. It is likely, however, that the non-free sectors are the most steadfastly and heavily protected simply because they are considered to be non-competitive, that is, inefficient. On this reasonable supposition, they are the places where the prospective gains from trade ought to be the greatest. Also, we must remember that the high percentage of trade that is already free is attributable in largest part to the Agreement. One-third of last year's exports to and imports from Canada (by value) took the form of

¹⁷ C. Beigie has said the Canadian government could not have signed the Agreement without the production increase commitments from the manufacturers. BEIGIE, *supra* note 5, at 48.

¹⁸ "It [the agreement] is assuredly the most successful trade policy in the history of one industry....It served to rationalize...U.S. and Canadian operation into an integrated North American auto industry." R. B. Smith, *supra* note 9.

¹⁹ W. BROCK, U.S.-CANADIAN ECONOMIC RELATIONS 65 (1984).

mainly non-dutiable automotive products.²⁰ Set this sector's trade apart, and the non-dutiable shares of imports are considerably less prepossessing: for U.S. imports the principal components are natural gas and newsprint;²¹ the machinery category (minus transport equipment) consists primarily of dutiable goods, which is also true of miscellaneous manufactures.

An objection to negotiating to eliminate tariffs, whether by sector or on a broader basis, is that non-tariff barriers are more important in U.S.-Canadian trade. The basis for this position is elusive. In their bilateral trade neither Canada nor the United States is greatly addicted to the worst kind of non-tariff barrier: the import quota. Steel, on which the Canadian side is said to set a "voluntary" quantitative limit on exports to keep the U.S. from itself imposing a quota on imports, is the principal current exception. In any case, a free-trade arrangement would need to make replacing the erstwhile tariffs with quota restrictions a clear violation of the bilateral understanding.

"Buy-American" and "Buy-Canadian" rules for government purchases are more difficult to deal with, partly because state and provincial governments cannot easily be bound in their buying decisions by what national authorities would like. Still, Canada and the United States are signatories of the GATT code on public procurement. They could readily tighten the rules at a national level for their bilateral purposes—if that were considered desirable, as it ought to be. Even if the choice made was to ignore the taxpayer interest, and that of the national economy, it is hard to believe a failure to extend free-trade more fully to the governmental sectors would make free-trade in other sectors irrelevant.

Actions against export subsidies and export dumping are sometimes listed as non-tariff barriers—not always incorrectly. However, the GATT proscribes both subsidies and dumping and establishes standards for such counter actions as countervailing or antidumping duties. As a practical matter, few if any governments would be prepared to forego these GATT rights. Furthermore, actionable export subsidies and dumping are not the most common events on the international trading scene.

Governments undoubtedly are capable of inventing ingenious ways to avoid accepting the benefits of unfettered international trade. It is not unreasonable to believe that greater free-trade between the United States and Canada would excite innovation in the non-tariff area, as it seemingly has in the European Community. This is a risk against which absolute insurance is impossible. One can observe, however, that whatever has taken place in Europe—which is often held up as the non-tariff hor-

²⁰ U.S. DEP'T OF COMMERCE, HIGHLIGHTS OF U.S. IMPORT AND EXPORT TRADE, B16-17, C20-23 (Nov. 1984).

²¹ *Id.* at C10-11.

ror example—there is no movement among the governments to return to the European tariff regimes.

A further and more telling argument is that a bilateral trade deal along sectoral lines would violate the GATT. Since the United States and Canada have an important interest in an effectively functioning GATT, this is a serious matter. Bilateral arrangements as such run counter to the fundamental GATT principle of non-discrimination. Sectoral bargains on other than multilateral bases fall under the same proscription. The answer is that a Canadian-American agreement to remove duties for a number of new sectors could bring the duty-free share of total trade to a “substantially all” level of 90%. At that point, the agreement could be presented as a free-trade area sanctioned by GATT Article XXIV—a justifiable exception to the non-discrimination principle. Taking into account precedent, the Contracting Parties to the GATT could hardly say no.

But even if the GATT problem could thus be resolved technically, the underlying issue remains. Does it make good economic sense for the United States and Canada to lock themselves into arrangements which will tend to narrow the possibilities for specialization on a global basis?²² There is a big world around us, and gains from trade can be expected if markets are made reasonably and non-discriminatorily open. How much should we limit our horizons? Unless we have given up on prospects for further progress toward freer multilateral trade, the question is a pertinent one.

The question becomes more pertinent, especially for Canada, as we contemplate negotiating sector-by-sector deals. Comprehensive free-trade between the United States and Canada would tend to maximize the probability that both economies would become more productive, with higher potential incomes. That indeed is the crucial rationale for making the effort at all. It cannot be certain whether these gains would be sufficient to offset the benefits foregone because of a possible narrowing of trade opportunities elsewhere, but the chances would be enhanced.

Confining the bargain to selected sectors would have to be a second (or third, if multilateral liberalization is included) best outcome. The selection process itself would all but assure that. Economic criteria for choosing one sector over another are shaky enough. The officials in charge would be pressed, on political grounds, to pick sectors least likely to arouse opposition—and least promising for promoting efficiency.

Any undertaking to eliminate barriers to trade is bound to lead to some reallocation of resources. There will be losses in employment and capital values in some sectors, gains in others. With gradual reductions in the barriers and with good luck in the macroeconomic arena, the ad-

²² In 1965, the Automotive Agreement could be defended as applying to a relatively unique product—the North American automobile—leaving largely unaffected U.S. and Canadian imports of the smaller fuel efficient vehicles from Europe and Japan.

justments among the losers need not be painful, as the experiences of the European Community and the European Free Trade Association demonstrate.

If, however, free-trade is to be a selective matter, other and conceivably less tractable problems may be anticipated. This is because, among the chosen industries under free-trade, some will have been advantaged and will be newly able to attract labor (with high wages) and capital (with high returns). To a degree, these new demands for resources will be accommodated by shifts from sectors which will cut back as a result of the post-free-trade reshuffle. But the pressures will tend to spill over to the sectors that have been excluded from the free-trade arrangement altogether. These sectors, which by definition cannot share directly in productivity advances from free-trade, will nevertheless face rising wage and capital costs and are likely to be the chief long term losers. Within Canada's relatively small economy, the distortions and political tensions from this source conceivably could make sectoral free-trade considerably less rewarding than had been hoped.

VI. CONCLUSION

These reflections have been in response to a query about the relevance of the AutoPact to further sectoral free-trade arrangements. I have suggested that the Agreement of 1965, while not irrelevant, does not furnish much of a model for 1985 and beyond. I have also argued, in accord with my personal prejudices, that a comprehensive (or as nearly comprehensive as possible) U.S.-Canada free-trade area is much to be preferred to additional sectoral accords.

The intelligence from Canada now seems to tell us that misgivings about either approach, and their possible consequences for Canadian independence, have not diminished very much. Since the 1984 U.S. Trade Bill states the American side can negotiate only if the initiative comes from Ottawa, it is not evident that any forward motion is a near-term prospect. Meanwhile, progress toward another multilateral trade round apparently has quickened. If these are the current realities, then the interest of Ottawa and Washington should be to concentrate on making the new round as big and far-reaching as can be achieved. Within that kind of context will be found multiple opportunities to reduce and remove obstacles to U.S.-Canada trade. In the world as it is, this may prove to be the best approach after all.