

*Auto Pact: Creating a Borderless North American Auto Industry.* By *Dimitry Anastakis*. Toronto: University of Toronto Press, 2005. xiv + 285 pp. Index, notes, photographs, figures, appendices. Cloth, \$55.00; paper, \$29.95. ISBN: cloth, 0-802-03903-0; paper, 0-802-03821-2.

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Trade policy had a crucial impact upon the development of big business in Canada. Determined to initiate a shift away from primary-sector activities, Canadian politicians introduced the “National Policy” in 1878, a regime of trade protection that remained in place for nearly a century. It was designed to facilitate the growth of manufacturing, particularly via the creation of local subsidiaries of foreign companies. By the criteria of Canada’s leaders, this policy was enormously successful, as massive direct investments gave rise to the creation of new industries, typically dominated by American firms. However, the “miniature replica” plants that made most of the products of their parent firms operated below minimum efficient scale and had serious productivity problems. As these issues became manifest, the viability of the National Policy was first questioned and then incrementally abandoned during the period of 1960 to 1993.

The importance of the Auto Trade Pact of 1965, which allowed for free trade in automobiles and automobile parts, in this transition has long been recognized. To date, most appraisals have been derived from anecdotal evidence. This study by Dimitry Anastakis fills in the gaps in information and is based upon every possible source: public documents, labor-union records, corporate archives, and interviews with the negotiators. He provides a concise and balanced analysis, which debunks much of the mythology that has been advanced by the Auto Pact’s supporters or detractors. The result is an objective interpretation that presents the interests and goals of the different parties and describes their successes—and failures—in achieving their ultimate aims.

The monograph is divided into three major sections. The background of the Canadian industry is reviewed, highlighting the early rise of domestic producers and the takeover by big American producers. Anastakis carefully probes the difficulties experienced by the industry and the Canadian economy during the late 1950s. He reveals

the Canadian government's tepid interest in a continental solution and its efforts to devise export incentives that might energize Canadian automobile production but would not undermine the existing tariff regime. The opposition of the American government to these initiatives is appraised, as is the stalemate that threatened to damage economic relations between the countries. The second section outlines the tortured route of negotiations, reviewing the options that were explored and explaining how a managed free-trade arrangement in automobile products became an acceptable solution for the various parties. It also considers the implementation phase of the Auto Pact, describing how production and companies were reorganized and how opposition from various interests was overcome. The third section reviews the effects of the Auto Pact: how it was viewed on both sides of the border; how it was exploited as a tool of industrial policy; and why it was eventually terminated. Anastakis explains why many American politicians became convinced that the Auto Pact favored Canada and were certain that their government had been hoodwinked during the negotiations.

Almost all of the Canadian literature on trade policy focuses on public officials and their tactics during negotiations. Anastakis adopts a new, and informative, approach, highlighting the pivotal roles played by the automobile manufacturers. He points out the varying concerns of different producers and reveals the difficulties of persuading General Motors to sign on to a potential deal. While favoring the concepts of trade liberalization, the executives were wary of Canadian demands for content requirements or specified shares of production. They were brought into concurrence (and then served as lobbyists) by promises that content issues would not be rigidly regulated and that European and Japanese producers effectively would be excluded. The final pact stipulated that the lower duties applied only to vehicles made in facilities actually in operation by 1964 and with 50 percent of their content from North American sources. The American corporations issued "letters of understanding" that met Canadian expectations on content and investment. These letters weakened the ability of American politicians to block passage of the agreement and subsequently to undo it. Anastakis also indicates how the firms reorganized their operations and engaged in a massive expansion of production in Canadian-based facilities, a process that led to the industry being subsumed within a larger North American framework.

I would have preferred a more detailed analysis of the developments after 1971, which the book only summarizes. The Auto Pact demonstrated the potential gains associated with cross-border integration. Canadian politicians, nonetheless, edged with difficulty toward an open endorsement of free trade with the United States. The contradictions between public posturing and actual patterns of action were significant. During the Kennedy and Tokyo Rounds of the General Agreement on Trade and Tariffs (GATT), the Canadian government jettisoned its insistence on tariff protection, even as it concurrently carried out nationalist initiatives aimed at building up domestic enterprises or restricting foreign investment. Nearly 90 percent of Canadian trade with the United States was tariff free by 1988, and the patterns of Canadian exports shifted accordingly, directing more than 80 percent to the American market. The success of the Auto Pact made it an issue within the GATT. European and Japanese leaders considered the agreement discriminatory and sought to ban further sector-specific arrangements, a stance that propelled the Canadian government toward negotiating the Free Trade Agreement of 1989 and the North American Free Trade Agreement of 1993. Concurrent resistance by the American and foreign governments undermined Canadian attempts to construct another bilateral scheme, and the Auto Pact itself was ruled illegal in 2001 by GATT's successor, the World Trade Organization.

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