Abstract: "From National to Continental to International: The Evolution of the Canadian Auto Industry, 1960-2000"

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The Canadian auto sector's development in the post-Second World War period has shifted from a national industry, to an industry integrated on a continental basis with the United States since the mid-1960s, to one internationalized starting in the 1980s. In doing so, Canada's automotive industry has become a key part of the regional North American auto sector. Since the 1965 Canada-US Automotive Products Trade Agreement between the two countries (known as the auto pact), US-owned Canadian assembly plants have produced for all of North America; since the 1980s, Japanese-owned Canadian assembly plants have done so as well. This dynamic has provided immense benefits to Canada as both the foreign-owned assembly and parts sector (which has an indigenously-owned element as well) have largely prospered. The decision to integrate continentally in the 1960s, and the form of that integration, was predicated on the notion that Canada's industry would retain some protectionist elements, including Canadian content requirements and minimum production floors, which foreign-owned manufacturers were mandated to maintain. This was acceded to by the United States government and the US Big Three. Later, Japanese assemblers agreed to invest in Canada and maintain a certain level of North American content as required by the 1989 US-Canada Free Trade Agreement (FTA) and the 1993 North American FTA (NAFTA).

In the result, Canada's industry has been fully and successfully integrated into the North American and international auto sectors. How did this occur?

This paper utilizes the idea of "selective globalization," or "smart globalization," a concept that has been developed in a variety of ways by a number of scholars. The notion here is that a shrewd, slow and selective approach in utilizing protectionist and non-protectionist policies—rather than a wholesale embrace of *laissez-faire* openness –has explained the success of many emergent economies in that last half century. Ha-Joon Chang, a heterodox economist, has been a leading advocate of this approach.[1] The management theorist Pankaj Ghemawat has also advocated a selective approach to globalization. He suggests that nations seeking to prosper in the global economy need to adopt a middle course between complete to foreigners and old-fashioned protectionist autarky.[2] Another important theorist of globalization is the Harvard economist Dani Rodrik. Rodrik's work shows that in the decades after the Second World War, the world economy experienced globalization: barriers to international commerce were removed and overall human welfare was improved. However, he argues that countries in this period did not move in the direction of eliminating all barriers to the movement of people, capital, and goods. Instead, national governments practiced selective globalization, choosing to eliminate some barriers to international trade, especially tariffs, while retaining others, such as restrictions on international capital flows and foreign ownership[3].

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[1] Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*. (London: Anthem, 2002).

[2] Pankaj Ghemawat, *World 3.0: Global Prosperity and How to Achieve It* (Cambridge, MA: Harvard Business School Press, 2011).

[3] Rodrick's *The Globalization Paradox: Democracy and the Future of the World Economy* (New York, 2011)

Canada is a good example of "selective globalization." Largely dependent upon trade, Canadian policy makers only slowly shifted from a 19th Century "National Policy" of protectionism to more open trade, through both international trade regimes such as the GATT and WTO, and through regional efforts such as the FTA and NAFTA. Further, the Canadian automotive industry case additionally departs from some of the traditional examples cited by Chang and Rodrick in that while most countries practiced selective globalization on a national basis, Canadian policy-makers instituted their form of selective globalization through a model of regionalization, continentalization and internationalization. Because the auto sector was integrated into that of the US, the Canadian industry gained both the benefits of protectionism and freer trade; as a result, the industry increased its productivity, innovation and competitiveness on an intra-regional basis. While the industry was continentalized, other "national" factors, such as a fluctuating exchange rate and a national healthcare program, gave the Canadian sector advantages vis-a-vis US plants, making increased Canadian production within the region desirable during the 1970s and 1980s. At the same time, investment incentives and duty-remission agreements (along with port slowdowns and the threat of increased content requirements) encouraged Japanese manufacturers to establish assembly operations in Canada in the 1980s.

Thus, within this selective globalization approach, public policy has played a key role in shaping the Canadian sector. An industry that before the 1960s was floundering and inefficient became increasingly efficient and competitive on a North American basis. In the period before 1965 Canada accounted for less than 5% of North American vehicle production; by the 1980s, it accounted for one fifth. Before the 1970s, there were no major Canadian parts manufacturers; by the 1980s, companies such as Magna and Linamar became significant players in the sector, both in North America and internationally. Before the 1970s, the Canadian sector was completely dependent upon Big Three production; by the 1990s, Honda, Toyota and Suzuki all had major operations in the country.

Paradoxically, in the case of the Canadian auto sector, continental integration as practiced by Canadian policy-makers from the 1960s to the 1990s was a form of economic nationalism. Examining both the competition and cooperation between states, firms, associations and labour unions in Canada and North America in this period, this paper utilizes governmental and corporate archival sources from Canada and the United States, along with interviews and wide range of secondary sources to chart the evolution of the Canadian auto sector. It provides an overview of the industry, analyzes the decisive elements that caused changes in the historical dynamics of competitiveness, and comes to some conclusions on why the Canadian industry emerged as a competitor within the North American context in this period.