

When comparing both method and country, 90% of non-market Canadian TNCs were neutral, and 10% positive, about the effect of NAFTA on trade with their U.S. subsidiaries. In contrast, non-market U.S. TNCs were more positive (55%) about NAFTA's effect on trade with their Canadian subsidiaries.

### Financial Variables

The hypothesis that financial factors do not differ between Canadian and U.S. TNCs can be rejected. As shown in Table 6 (Panel A), all financial ratios (returns on equity, assets and sales) are lower, and, in six of seven cases, significantly lower, for Canadian TNCs. These findings may lend support to Hufbauer (1992) and Grubert et al. (1993), who attribute some part of the poor profit performance by U.S. subsidiaries of Canadian TNCs to possible transfer pricing manipulations. The lower returns and size variables in Table 4 may also support Rugman and McIlveen's (1986) explanation that Canadian TNCs are less diversified and smaller than their U.S. competitors, therefore exhibiting poorer relative performance.

\*\*\* Insert Table 6 Here \*\*\*

Differences in effective tax rates indicate that Canadian TNCs could minimize taxes by charging higher prices to their U.S. subsidiaries, therefore keeping income in lower-taxed Canada, as suggested by Boidman (1993). This is supported by the significantly higher ROS of 5.12 for domestic Canadian subsidiaries when compared with their U.S. subsidiaries' ROS of -14.76. U.S. TNCs might also be encouraged to shift income into Canada given the latter's lower