

integration and liberalization. The extent to which a country's trade is FDI-related will depend on the size and propensity to trade of its own MNCs abroad and on those it hosts. As happened in the European Community, intraregional investment drove the process of economic integration and the NAFTA agenda as companies positioned themselves to operate in a large and competitive market.

In NAFTA each country has pursued their respective policy objectives. For the United States the prime motive is political -- "to help insure an economically strong Mexico as a model to the hemisphere and especially the heavily indebted or politically unstable Latin American and Central American countries" (Randall 1992: 27). Mexico's objective is an increased flow of foreign direct investment. It was reasoned that, with the assurances of NAFTA, foreign investors would be willing to invest in export-oriented industries and larger projects in Mexico (Krueger 1995: 72). Canada's purpose is to create a "hub-and-spoke" approach where the United States or "hub" benefits from access to the markets or "spokes". In this way Canada may receive many of the trade benefits of the United States. The primary incentives for Canada's participation were guaranteed access to U.S. markets, and relief from protectionist measures, while the U.S. was primarily driven by the desire to obtain guarantees from Canada regarding the flow of energy.

As Canada moved to join the U.S. and Mexico in the NAFTA, most critics argued that jobs would be lost to Mexico because of the cheaper labor and production costs, that NAFTA was not necessary because most of Canada's trade was already free (approximately 80% of Mexican imports to Canada already enter duty free), and that the new agreement would be an opportunity for the U.S. to get from Canada what they were unable to secure in the bilateral agreement. The Canadian government, on the other hand, felt that participating in the new agreement provided extensive economic benefits in terms of new markets in Mexico. Canada was already Mexico's fifth largest