Likely impact of trade liberalization on investment

Based on an analysis of four major surveys on investment intentions, we conclude that trade barriers appear to have decreasing significance as a criterion for investment in Canada by US firms, but increasing significance for investment in the United States by Canadian firms. Consequently, removal of barriers under a comprehensive trade agreement will likely have a neutral effect on U.S. investment in Canada and a mildly negative impact on Canadian investment in the United States. Bilateral investment flows under liberalized trade arrangements may be expected, in the short to medium term, to shift more in Canada's favour due to a reduction in Canadian investment to the United States. The overall impact will be slight, however, since the factors found to be most important in investment decisions (market growth, market size, proximity to customers) are highly insensitive to the elimination of trade barriers.

As far as the fate of American subsidiaries in Canada is concerned, removal of trade barriers is likely to result in no change or further rationalization in the large majority of cases. Gradual removal of barriers and appropriate government policies should be implemented to ensure that the process of rationalization maximizes the number of establishments and jobs left in Canada. It must be remembered, however, that a great deal of rationalization in the Canadian operations of foreign subsidiaries has already taken place as a result of trade liberalization under the Kennedy and Tokyo Rounds.