

EXECUTIVE SUMMARY

The emergence of global multinational enterprises (MNEs) and the integration of international economic systems have strong implications for international trade and economic policy in Canada. Some traditional policy instruments are being rendered ineffective by globalization and the inter-dependence of international and domestic policies. The challenge of forming responsive, rational and efficient trade and economic policies must be met by new attitudes that will respond to the new realities.

Multinational enterprises have moved away from traditional multidomestic strategies and are adopting increasingly global strategies. This implies a new trade and investment dynamic that is dominated by concerns of profit and market-share maximization for the multinational as a whole. Home country interests do not play as major a part in an MNE's strategic decisions as they once did. However, decentralization of some aspects of production and marketing has gone hand-in-hand with continuing centralization in strategic decision-making, financial planning and research and development. Although not enough empirical evidence exists to be able to claim that MNEs are becoming increasingly stateless, their new strategies *can* be said to be global.

Although policy makers may wish to respond to the more globally focussed firm by pursuing strong policies with regard to foreign direct investment (FDI), they may find that some traditional policy options are becoming increasingly ineffective. Globalization implies that domestic policies have increasing international ramifications and vice versa. Domestic policies, such as fiscal policy, can set up barriers to FDI and trade, causing MNEs to choose to locate in other countries. Traditional policy instruments, such as performance requirements, are becoming increasingly unenforceable and irrelevant, as MNEs become more global.

Trade

It is generally agreed that FDI has a considerable and direct effect on trade. Empirically, trade and FDI are found to be complementary. Increasing absolute levels of intra-firm trade (international trade between affiliated enterprises) is one important positive effect of FDI. To the extent that trade and FDI are complementary, open policies on FDI should encourage trade.

Free trade policies, such as the NAFTA, encourage Canadian affiliates of foreign MNEs to rationalize their behaviour, become more productive and streamline operations. They must seek out a niche market to justify their existence or they could