

The evidence displayed in the panels of Exhibit I is incompatible with a close causal relationship between tariff protection and foreign ownership within the Canadian manufacturing sector. This evidence accords with our conceptual framework conclusion that tariff protection has only secondary implications for the international interdependence necessary for a MNE.⁸

Our conceptual framework and the evidence in Exhibit I suggest that reduced trade barriers will not have a major impact on the overall level of foreign direct investment in Canada. Nonetheless, at the level of each individual sector reduced trade barriers could have an impact on foreign direct investment in some cases. In terms of our conceptual framework the relevant sectors are those where tariff barriers drive a sufficiently large wedge between the Canadian price and the world price that domestic productive inputs increase in value sufficiently to induce foreigners to acquire control. In terms of the evidence displayed in Exhibit I this interdependence could be present for the following sectors: tobacco products, leather products, knitting mills and clothing.

Foreign control responses to reduced bilateral trade barriers

This section predicts changes in the level of foreign control over Canadian industry associated with each choice for our bilateral trade policy with the United States.⁹ The first sub-section predicts the foreign ownership responses to a free trade area. The second sub-section predicts foreign ownership responses to either sectoral or functional free trade agreements. The role of a bilateral