FOREIGN DIRECT INVESTMENT UNDER NAFTA

INTRODUCTION

Bringing Mexico into partnership, the 1993 North American Free Trade Agreement (NAFTA) furthers the effort of the prior Canada-U.S. Free Trade Agreement (FTA) in liberalizing trade in North America. Without a doubt, by creating a single North American market of 377 million consumers with more than $7.5 trillion in goods and services, NAFTA facilitates the free flow of trade in goods and investment capital throughout North America. Moreover, the three economies are already closely linked by an extensive network of trade and investment. Both Canada and Mexico host substantial U.S. investment, while the United States benefits from sizable Canadian direct investment.

Trade liberalization is by no means the only characteristic of NAFTA. Such NAFTA provisions as rules of origin and national treatment are trade protectionist measures discriminating against nations outside the NAFTA trading bloc. Proactive actors in the global economies, the U.S. and Canadian multinational corporations must carefully redesign the outlays of investment in different areas under NAFTA and continuously lobby for trade liberalization in North America and/or protection against non-NAFTA countries when necessary. Direct investment as opposed to portfolio investment is a unique form of international capital flow in that it can take a number of different forms including equity joint ventures, cooperative joint ventures and wholly foreign- owned enterprises. Multinationals are facilitating institutions which are able to capitalize on changes in exogenous variables so as to organize world production to optimally exploit comparative advantage. Most direct investment passes between industrial countries. However, multinationals tend to go first to countries most familiar and nearby: U.S. firms go to Canada, Canada to U.S., German firms to European neighbors. They tend to locate in large countries because establishing a manufacturing plant or a