

investment and foreign control could increase. This sequential pattern of MNE responses assumes no change in corporate MNE strategies for Canadian subsidiaries. Second, the form of foreign control could alter as MNEs respond to reduced trade barriers with corporate strategies that integrate Canadian subsidiaries by rationalization or world product mandates. These strategic responses are not likely to occur in sectors where branch plants are made redundant by reductions in Canada-United States trade barriers. Viable rationalization and world product mandate strategies are more likely to occur within sectors producing new products by production techniques amenable to Canada's endowments of productive inputs. Third, taxation is probably the most important policy influence on our trade patterns. Legislation and policies for exchange rates policy, labour markets, and competition can induce transitory changes in our trade patterns but they are unlikely to permanently alter the structure of our exports and imports. Labour costs are the major determinant of both our trade patterns and foreign investment flows.