

- References
- ◆ a long term increase in outward FDI flow from the EU as increased EU growth spurs more external market-oriented FDI.

Specifically for Canada, FDI in Europe is of significant importance, and is related to MNE investment in subsidiaries, and the financial services sector, largely centred on London, UK. The possible effects on Canada-EU FDI flows are as follows:

- ◆ "agglomeration" effects which result in economies of scale, hence attracting FDI from external sources;
- ◆ "liquidity" effects in the financial services industry, which in turn may induce FDI inflows so as to take advantage of restructured and more competitive pan-EU financial markets;
- ◆ FDI diversion effects from Canada as third parties decide to concentrate new investments on the EU; and
- ◆ in the longer term, an increase in FDI outflows to Canada, to take advantage of Canada's strategic position in trading specific goods and services within NAFTA.

Lastly, it should be stressed that these results are not definitive, as they are based on ongoing research in this area, all of which is extremely scenario dependent. Clearly, most of the conclusions presented in this paper depend on a successful implementation of EMU, which is still not yet assured.