

CONFIDENTIAL

EFFECT OF ENHANCED TRADE ON INVESTMENT: SURVEY EVIDENCE

The magnitude and destination of direct investment flows into and out of Canada depends ultimately on decisions by individual firms. In analyzing the impact of trade liberalization on investment, two questions are of significance: one, what is the relative importance of trade barriers in the investment decisions of U.S. and Canadian firms?; two, and consequently, what is the likely impact of their removal on investment flows?

Importance of Trade Barriers on Investment Decisions

Several recent surveys have analyzed the main determinants of investment in Canada by American firms and of investment in the United States by Canadian companies. Since Canadian investment in the United States could conceivably have remained in Canada, it may be argued that such outflows constitute as much of a reduction to domestic capital formation as a decrease in net foreign investment. Consequently, the behaviour of both American and Canadian firms must be analyzed in order to arrive at a complete understanding of the likely effect of trade liberalization on investment in this country.

Attitude of Foreign Firms Toward Investment in Canada - In April 1984, the Conference Board of Canada published the results of a survey based on responses to questionnaires sent to nearly 7,500 potential foreign investors in 19 countries. The study attempted to elicit views of Canada's attractiveness as a host country for investment.

There were 645 usable responses to the questionnaire; another 97 firms replied in letter form, for a usable response rate of 9.9%. Such a response rate is considered excellent for an international survey. Of those who responded, 55.7% came from the United States, thus making the general results of this survey applicable to a study of investment intentions in Canada by U.S. firms exclusively.

Respondents were presented with 21 criteria which might have affected their most recent decision to invest or not to invest in Canada. Companies were then asked to evaluate the relative attraction of each criterion and then indicate which ones "most strongly influenced" their most recent Canadian investment decision. Table 1 gives a conceptual grouping of factors presented while Table 2 summarizes the results of company evaluations.