

### 6.3 Net Effects on FDI

As the reader is aware from the above discussion, there is no unifying theoretical underpinning that allows the economist to predict the net effect of EMU on FDI, as there are both short and longer term effects, and also second round effects on trade. In an attempt to summarise the effects of EMU for the reader, table 5.4 categorises and tabulates the discussion from above.

Table 5.4  
**EMU Effects on FDI**  
 (Canada to EU/EU to Canada)

Effect	MNE effects	Financial services effects
Agglomeration	+ ("core") / [-]	+ ("core") / [-]
Dynamic	0 / +	
Liquidity		+ / 0
TOTAL	+ / [+]	+ / [-]

If table 5.4 accurately represents FDI flows, then EMU should result in an increase in inflows of FDI in the short term into the "core", with little effect on FDI inflows to Canada, but in the longer term, FDI inflows into Canada may increase, due to the dynamic interplay between trade and FDI. On the financial services side, agglomeration effects may also be noted in the financial services sector, which should induce inflows of FDI into the EU, and because of liquidity effects, this will also make it more attractive for MNEs to set up subsidiaries in the EU: there may be a small negative impact on inflows of FDI to Canada, if this diverts FDI away from Canada.

### 7. Other Scenario-Dependent Potential Effects

There are several other effects that could potentially have an impact on Canadian trade and investment, but each of these effects is dependent either on how EMU is implemented or on the configuration of insiders and outsiders as EMU progresses. A non-exhaustive list of these items might be classified as follows:-

- ◆ changing trade patterns due to the insider-outsider configuration;
- ◆ exchange rate volatility effects;
- ◆ a one-time discrete jump in exchange rates at the beginning of stage three;
- ◆ internal EU competitiveness effects; and
- ◆ third country competitiveness effects;

Each of the above effects is addressed below.