

A manifestation of this international interdependence that is relevant for Canada is the relationship between our natural resource endowments and both the managerial skills such as marketing and the large scale of productive output necessary for the American market. Natural resource endowments are relatively more abundant in Canada than in the United States implying that they are relatively less costly in Canada. Nonetheless, managerial skills are relatively more scarce and costly in Canada. Conversely, while managerial skills are relatively more abundant in the United States, natural resource endowments are relatively scarcer. Hence, a MNE combining American managerial skills and Canadian resource endowments undoubtedly generates more wealth than a domestic Canadian enterprise or a domestic American enterprise producing identical outputs.

The international division of labour that often characterizes natural resource production processes permits cost shifting when markets are the co-ordinating device. Inefficient natural resource extraction in one country imposes costs on the refining and marketing of the resource output in a second country that are unlikely to be incorporated in the prices of the extracted natural resources. This inefficiency and resultant cost shifting would be reduced if foreign owners co-ordinated extraction, refining, and marketing by managerial commands issued through a MNE. The consolidation of international activities in a MNE thus increases the value of productive output.

The consequences of trade liberalization for foreign direct investment hinge upon trade barriers as a causal factor responsible for international