supplied from the domestic base to the foreign affiliate, and also to **associated investment** both in the home and host countries. These sequential steps follow similar patterns in the development of natural resources and in trade in services, although in those sectors, some of the steps may be skipped. Canada has been no stranger to this process of globalization and has benefited from some C$180 billion of FDI (stock in 1996), and Canadian direct investment abroad (CDIA) now totals C$171 billion (95% of FDI).

The traditional internationalization sequence

an affiliate usually generates demand for other products such as capital goods or intermediate goods and services

In the manufacturing sector, a firm has traditionally embarked on an internationalization sequence1 as follows:

- Domestic production and sales
- When foreign markets become interesting, exports begin usually with arm's length sales, initially through domestic or foreign agents, without FDI.
- Intermediaries are replaced by export departments at headquarters, leading, perhaps, to some FDI, such as warehouses or foreign trading affiliates.
- Exports are followed by licensing of foreign producers to manufacture a product with proprietary technology.
- Once experience with these and other, mostly non-equity, forms of production abroad has been gained, firms gradually begin to build up production capacities, beginning with assembly operations or other partial production (sometimes in joint ventures with local partners), before turning towards production in majority or wholly-owned foreign affiliates, which tend to be stand-alone clones of their parent companies.
- While a firm may simultaneously export to many countries, investment in production facilities usually begins in one country, typically not too distant from the home country from the psychological point of view. This "psychological distance" is measured in terms of factors preventing or disturbing the flows of information between firm and affiliate, such as differences in language, culture, political systems, level of education and level of development.
- If successful, the experience with the first foreign producing affiliate can lead to setting up affiliates in other countries, on the basis of separate, local market-oriented strategies relying on stand-alone affiliates.
- Eventually, foreign affiliates may begin to export.

This step-by-step sequence of servicing foreign markets is followed by most manufacturing companies, both large and small, that develop foreign activities. However, some stages may be leap-frogged; the step of licensing of foreign producers is often omitted. In devising investment attraction strategies, it is important to know the stage the firm is at in this sequence, in order to influence its decisions. The presentation of an investment opportunity has to match the stage of the target firm's development in this sequence and, of course, timing is crucial.

Although foreign production may substitute for trade in a product, the impact on trade of establishing a foreign affiliate does not stop there. While replacing exports, an affiliate usually generates demand for other products such as capital goods or intermediate goods and services. These may be provided by other parts of the parent, its suppliers or independent companies at home, or firms in third countries. This may lead to new trade for both home and host countries - associated trade; if it pulls domestic suppliers of goods and services abroad, it can also lead to new investment - associated investment. Also, over time, and as transnational corporations (TNCs) mature, strategies change, as do trade relations. Exporters from a home country can become importers into itself from foreign affiliates; and importers into a host country can become exporters from it. This trend has occurred with Japanese TV and video producers, as Japan has now become a net importer of these and many other consumer goods, a scenario that would have been unthinkable ten years ago. Toyota now makes more cars overseas than it exports from Japan. Several studies1 of developed countries indicate that the trade-creating effect of FDI in manufacturing for the home country tends to outweigh the trade-replacing effect,