Canada. There is a case to be made that, contrary to conventional economic theory, globalization of MNEs actually enhances trade flows.

Conventional international economic theory postulates that FDI and trade are substitutes.[38] The basic assumptions of traditional international economic theory do not allow for the role of MNEs as major players in trade. In reality, the most conservative estimates indicate that MNEs account for more than one third of international trade.[39] Also, empirical evidence shows that the larger part of actual direct investment is between countries with relatively similar factor endowments. Conventional theory would indicate that, if a company chooses to invest directly in a foreign subsidiary, this subsidiary's production would substitute for what the parent would have exported to the host country. This would reduce trade flows. The fact that foreign affiliates might trade goods and services with the parent, require foreign sourcing and sell into the export market (not directly to the parent) are factors that would counteract this substitution.

Although theoretical and historical reasons for MNEs establishing foreign subsidiaries would be to serve *local* markets, empirical evidence shows that their propensities to export and import are *higher than those of local firms*.[40] One reason for this is that the foreign subsidiary is likely to be a large company with a more dominant market position. Also, by their nature, affiliates are more fully integrated into world trade than are domestic firms. This is the case even if the subsidiary is established by a takeover. Links to the parent company and to the global network of the parent are immediately established and intra-firm trade flows, exports and imports, will boost trade.

A recent Investment Canada study showed that foreign-owned manufacturing affiliates had both higher export and import propensities than their domestic counterparts.[41] The export propensity of foreign manufacturing firms was found to be 73% higher than that of domestic-controlled firms. The study concluded that: "Although the tariff may have been important in inducing foreign firms to establish

[38]For more on this, see W. Ethier, "The Multinational Firm", *The Quarterly Journal of Economics*, November 1986, pp.807-9.

[39]OECD, *The Impact of Foreign Investment on Domestic Economies of OECD Countries*, p. 61.

[40]*Ibid.*

[41]R. Covari and R. Wisner, *Foreign Multinationals and Canada's International Competitiveness*, Investment Canada Working Paper No. 16, June 1993, pp. 51-60.