

3.3 Investment Response

3.3.1 Expected Effects -

The term "capital investment" is used here to denote the purchases of machinery and equipment and nonresidential construction by a firm to enhance its productive capacity. "Financial investment" will be used to refer to the financial flows, particularly from abroad, that may be used to finance new capital investment, to acquire an interest in an existing firm, or to acquire financial instruments. When these transactions occur with a firm in which the investor has at least a 10 per cent equity interest they are referred to as a "direct investment".

With the FTA, and particularly as a result of improved access to the U.S. market, it is expected that capital investment will increase, particularly in those industries within manufacturing that are expected to increase their exports.

Other provisions of the FTA have provided for national treatment for financial investments made by Canadians into the U.S. and vice versa. This should lead to increased financial investment flows in both directions.

With companies owned by nationals of third countries, but located in either the United States or Canada, having access to the North American market comparable to that of U.S. or Canadian nationals, there will be an attraction for foreign direct investment from third countries to locate somewhere in North America.

3.3.2 Interview Opinions -

Capital Investment

The possibility of a joint survey about capital investment and other FTA effects was discussed with the U.S.-based National Association of Manufacturers (NAM) and with the Canadian Manufacturers Association (CMA).

There was general agreement that a Canadian location to serve the North American market has been improved as a result of the FTA, through both cost and "access" considerations. This should favor capital investment in Canada.

In more detailed studies of capital investment, it would be useful to distinguish the intentions or actual investments by firms controlled by the U.S., Canadians, and other foreigners. If possible a further distinction could be made (particularly in a joint survey) between:

- o U.S. firms with plants in Canada and the U.S.,
- o Canadian firms with plants in both countries,