affiliates compared to U.S. parents' imports from Canadian affiliates was 1:1 (U.S. $32.1 billion/U.S. $32.5 billion). Conversely, the ratio of Canadian parents' exports to U.S. affiliates compared to Canadian parents' imports from U.S. affiliates was 5:1 (U.S. $7.2 billion/U.S. $1.4 billion).[23] As shown earlier, a large portion of the Canada-U.S. intra-firm trade flows can be attributed to the impact of the Canada-U.S. Automotive Pact. Canadian studies have also shown the importance of intra-firm trade to Canadian exporters and importers. For the manufacturing sector, an Investment Canada study estimates that, in 1988, about 15 percent of the imports of Canadian-controlled manufacturing industries is accounted for by intra-firm trade, while 63 percent of the imports of foreign-controlled manufacturing firms are intra-firm trade.[24]

A study by the Conference Board of Canada revealed some of the motivating factors driving Canada-U.S. intra-firm trade. The analysis was based on a recent Conference Board of Canada survey of over 1,000 firms in Canada on intra-firm trade, including both Canadian parent corporations with U.S.-based subsidiaries (250 firms) and Canadian-based subsidiaries of U.S.-based parent corporations (750 firms).

The main motivating factors driving Canada-U.S. intra-firm trade cited by respondents included:

- corporate strategy:
    - the overall production strategy of the corporation to locate plants in different North American locations allows flexibility in production runs and production switching depending on product demand patterns;
    - strategic rationalization by the firm, eliminating duplication of production in Canadian operations, mainly due to the multinational enterprise's worldwide production strategy; and,
    - product mandates replacing geographic mandates with particular proprietary knowledge at the firm level in Canada, resulting in Canadian operations fulfilling a specific product mandate for the entire corporation.
- cost advantages:
    - the use of intra-firm trade reduces transaction costs for the corporation and product rationalization results in economies of scale through reduced costs.

---

[23] *OECD, Intra-Firm Study, op. cit., p. 14. The first ratio is heavily influenced by integrated automotive trade by the Big 3 and may overstate the value of Canadian affiliate exports to the U.S. (due to high U.S. content in vehicles assembled in Canada). The second ratio seems to provide good evidence that direct investment abroad can sustain healthy export flows from the home country.*

[24] *R. Corvari and R. Wisner, Foreign Multinationals and Canada's International Competitiveness, August 1992, p. 62.*