

For its part, Canadian outward direct investment grew faster during the 1980s than foreign direct investment in Canada (with stock increasing from \$16 billion in 1978 to \$85 billion in 1990, compared to \$50 billion and \$125 billion respectively). Canadian investment abroad can make a positive contribution to Canada's economic development prospects. International networking through licensing arrangements, joint ventures and strategic alliances with firms abroad lessens the risk and cost of increasingly expensive R&D in the high tech sectors. Such networking also provides an effective framework for local sales, marketing and after-sales servicing in foreign markets. The establishment of Canadian financial institutions abroad can facilitate finding solutions to the marketing challenges faced by Canadian exporters.

Moreover, trade often follows direct investment abroad in a major way. On the basis of data available for the U.S. market covering trade between parent companies and their affiliates (one of which is based in the U.S.), trade in almost all instances is strongly composed of parents' sales to their affiliates rather than the reverse. For example, in 1989 European firms sold almost four times as much to their affiliates in the U.S. than vice-versa. U.S. firms sold twice as much to their European affiliates than the reverse. The ratio for Japanese firms vis-à-vis the U.S. market was almost four to one. Although the ratio for U.S. firms with Canadian affiliates was one to one, it was a highly favourable five to one for Canadian firms with U.S. affiliates (a relationship of considerable importance, given that more than 70% of Canada's direct investment abroad is in the U.S.).²⁸

(ii) Trade Policy Responses:

Investors, domestic and foreign, base their location decisions on a range of factors, several not directly related even to the more over-arching trade policy agenda of the late twentieth century: taxation levels, infrastructure, proximity to markets and inputs, cost of capital, price and currency stability, skills and stability of the labour force, and government regulations affecting all aspects of business operations from labour and environmental policies to internal barriers to trade and antitrust practices. The creation of an environment considered attractive to foreign and domestic investors in the 1990s will require the close collaboration of all levels of government in Canada and a clear understanding of how these policy instruments interact.

²⁸ OECD, "Intra-Firm Trade", paragraphs 33-5. Further work, hopefully expanding coverage to include more countries, is underway in the OECD.