

The Free Trade Agreement and Canadian Investment in Northern New York

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According to regional economists, international borders tend to push economic activity toward the centres of the countries. Hoover (1963) calls political boundaries trade barriers with "locations near the boundary (being) at a disadvantage as processing centers". Losch's term for this phenomenon is "border wasteland". The border location of northern New York historically has prevented its full economic integration with Canada. The region is positioned between the two industrial heartlands of North America—one to the south in the United States, a 500 mile-wide band stretching from Boston to New York to Washington, D.C., and westward to Chicago (including such urban areas in New York State as Albany, Syracuse, Rochester, and Buffalo), and the other to the north in Canada, encompassing from east to west Quebec City, Montreal, Ottawa, Toronto, Hamilton, and Windsor.¹

Despite the proximity of northern New York to Canada, Canadian tariffs have prevented U.S. companies from exporting to Canada from any location in northern New York, but they also have encouraged the flow of U.S. investment to Canada. Thus, the elimination of tariffs and the removal of Canadian economic barriers under the Canada-U.S. Free Trade Agreement (FTA) should have a beneficial effect on such

1. This economic heartland of Canada centred in the provinces of Quebec and Ontario possesses almost 70 percent of the Canadian market, 63 percent of the Canadian population, 72 percent of the Canadian labour force employed in the secondary sector, and three-quarters of all metropolitan cities in Canada. The two largest metropolitan cities in Canada, Toronto and Montreal, control 72 percent of Canadian domestic and foreign assets. Ninety percent of major Canadian corporations and multinationals are headquartered in these two cities, both of which are close to northern New York.

regions by submerging the negative impact of their border locations. In addition to its border location, northern New York suffers from other physical characteristics: a small population spread over a large land mass, lack of any major metropolitan city with a population of 50,000 and over, a small and fragmented market, and its physical isolation attributable to the presence of the Adirondack Mountains and its forest reserve (Gandhi 1973). The combined effect of its border location and its physical isolation has created a dual regional economy (a small urban population coexisting with a large, non-farming, rural one), a relatively smaller share of employment in manufacturing which contributes directly to higher-than-average unemployment rates with large seasonal variation, and the lowest regional per capita income in the state.² More than other regions, the northern New York region depends on public rather than private funds through a vast network of state institutions, criminal detention and correction facilities, military installations, and various income-maintenance programmes (Gandhi 1989).

The free flows of goods, services, and investment across regional boundaries lead to economic interdependence and bring efficiency and benefits to the trading partners. But any restrictions placed on these flows interrupt the process and thus cost the region(s) concerned. Of all the possible restrictions, tariffs occupy a central position in trade flows because of their widespread use as well as their effects on the economic structure. Tariffs are a cost over and above the other costs (for example, transportation) that companies have to bear for the privilege of selling in other geographic locations. Tariffs raise prices and inhibit sales. Given the other costs of production, changes in tariff rates in either direction affect a company's decision not only to export but also to locate production in or out of the region. Tariffs (or the expectations of their rise) are a powerful reason for international business to invest abroad, since it is always cheaper in the long run to move a unit of capital than to continue to produce the products at home, export them, and pay for higher transportation costs and tariff duties (Kindleberger 1969; Calvet 1981). Canada, for example, is considered a prime example of a nation in which protection (tariffs) has led to foreign ownership of most of its manufacturing industry and

2. In relation to New York State as a whole, the northern New York region has a somewhat smaller share of employment in the manufacturing sector (in 1987, 23.9 percent versus 27.8 percent for New York State). Within the manufacturing sector, lumber, wood products, and paper accounted for 33 percent of manufacturing employment in 1985 (New York State Department of Commerce 1985). Similarly, the 1990 unemployment rate of 5.1 percent for New York State was lower than those found in the region's counties—5.3 percent, Clinton; 8.0 percent, Essex; 6.7 percent, Franklin; 7.0 percent, Jefferson; 7.2 percent, Lewis; and 7.0 percent, St. Lawrence (*Press-Republican* 1990a).

nearly all of its resources. In fact, two principal motives for U.S. direct investment in Canada have been to secure supplies of raw materials for U.S. industries and their subsidiaries and to extend the market for U.S. products. The first motive is attributed to Canada's proximity to the United States and the complementarity of Canadian resources to U.S. resources. For the second motive, the evidence strongly points to the presence of Canadian tariffs and the Commonwealth Preferential Tariff (Rugman 1980: 81; Gherson 1979).

Studies made of the motivations behind increasing foreign direct investment in the United States point to the growing protectionist sentiment in this country, especially in recent years concerning the inflow of Japanese funds for automobile production. Indeed, the same can be said of earlier investments by foreign companies in this country (Ricks 1983). At the same time, the relative importance of tariffs in attracting foreign investment into the United States and Canada has declined. Recently, in both countries the growth of domestic markets has played an extremely important part in direct foreign investment (Ajami and Ricks 1981; Gherson 1979). For northern New York, the proximity of Canada means some benefits in the form of an inflow of Canadian funds through recreation and tourism, deposits in regional banks, as well as investment in real estate and business. Indeed, a number of Canadian companies have found it profitable to establish their operations south of the border in this region. It is this structure of the northern New York economy that was considered to be at stake under free trade. Would free trade dry up the fresh inflow of Canadian business investment? Would it force the existing companies to rationalize their operations in northern New York with their operations in Canada? If so, would Canadian companies close their operations in New York and move back north to Canada?

Before these questions can be answered, we must look at why Canadian companies located in the region in the first place. If Canadian business moved into the region to overcome U.S. tariffs, would that urgency disappear under free trade? This is precisely the same concern that Canadians had during the free trade negotiations and that led some provinces, especially Ontario (a major recipient of investment from abroad), to oppose the FTA. Although the issue is an empirical one requiring careful investigation, it is clear that, on the one hand, the FTA should deter much "defensive" investment now taking place because of the growing risk of U.S. protectionism. On the other hand, a larger flow of Canadian exports into the United States under the FTA should stimulate Canadian investment in complementary assembly, marketing, distribution, and service facilities abroad. The FTA also should lead the two countries toward their comparative advantage positions; increase their productivity; raise incomes,

savings, and investment funds; and reduce the degree of political risk and uncertainty between them—all of which are positive influences on increasing the flow of investment rather than reducing it (Burgess 1987).

The flow of Canadian investment is also affected by market conditions in Canada such as the limited size of the Canadian market, liberal antitrust laws, and greater concentration of the market—all of which have pushed Canadian companies, especially the smaller ones, to expand into the United States (Lipsev et al. 1990). If Canadian industry becomes more concentrated because of the FTA, smaller and medium-sized Canadian companies may opt to operate in the United States. Fluctuations in the exchange rate also can affect the international flow of investment. Indeed, it is now generally accepted, as first introduced by Aliber (1970), that exchange rate fluctuations affect short-term capital flows but are inconsequential for long-term direct investment. Moreover, such fluctuations do not explain the cross investment by multinational corporations (Rugman 1981). In the context of Canadian direct investment in northern New York, it appears that the appreciation of the U.S. dollar does not discourage new investment—in fact, it encourages such inflows. The expansion of existing New York-based Canadian companies, however, is unrelated to exchange rate movements. The behaviour of these companies is similar to that affecting domestic source investment (Solocho et al. 1989).

Canadian Investment in Northern New York

In many ways, flows of international investment are tied to the concerns of the political economy at home and abroad. Since 1945, a major restructuring of the world economy in terms of trade and investment flows has occurred. Tariffs have declined, making world trade more liberal among the industrialized countries since 1945, and international flows of investment have increased concurrently at a rapid rate. The emergence of multinational corporations (MNCs) since 1950 and the accompanying development of international offshore production have been a fascinating phenomenon of international economic relations. The organizational and institutional changes brought by MNCs affect all flows (for example, goods, services, and capital funds between parents and subsidiaries and between the subsidiaries themselves). Explanations of such flows, especially investment, have included factors that “push” investment out of the home base (donor country) and those that “pull” or attract investment to the host country. Push factors—such as the relative differences in the cost of

production at home and abroad, tax and economic regulations that affect the investment climate, the increasing maturity of the product along its life cycle, the saturation of the home market, and, of course, the increasing strength of the corporation in technology, finance, and management—all encourage companies to invest abroad to maintain or increase their competitive position and market share globally. Pull factors refer to the attractiveness of the foreign country in terms of higher productivity, investment incentives (provided by state and local governments), lower political risk (greater political stability), larger size, and the diversity and growth of its markets. According to Rugman (1987), pull factors are market-driven determinants of foreign direct investment, and push factors are particularly sensitive to government policy changes whether in response to macroeconomic factors or to changes in the capital market. In any event, the history of international investment to and from the United States is the history of the changing importance of each of these factors both in the United States and abroad.

The United States has successfully attracted foreign investment over the years. In 1987, for example, 46 percent of all international investment was located in the United States. The dramatic increase in the flow of foreign capital into the United States since 1981 largely reflects the massive U.S. trade deficits. During this period, the United States has gone from net creditor (with a net claim of \$141.1 billion) to net debtor (with net liabilities to foreigners of \$368.2 billion). Foreign assets increased by 165 percent compared with 62 percent for U.S. assets abroad.³ Equally relevant is the changing composition of the foreign investment in the United States—from portfolio investment to direct investment—that took place between 1975 and 1987. For example, in 1975 direct investment from abroad was a little over 12.5 percent of total foreign investment, and U.S. direct investment abroad represented 42 percent of the total U.S. foreign investment. In 1987, the respective percentages were 17 percent and 26.5 percent. Although U.S. direct investment abroad exceeded foreign direct investment in the United States in 1987, the latter has been expanding almost two and a half times as fast as the former. Consequently, the relative size of foreign direct investment has risen from 22 percent of U.S. foreign direct investment in 1975 to about 85 percent in 1987, and the gap will continue to narrow with every increase in the U.S. trade deficit (Ott 1989).

3. The 1989 figures released by the U.S. Department of Commerce show foreign holdings in the United States of \$2.076 trillion against U.S. holdings abroad of \$1.412 trillion. While U.S. holdings of foreign assets were up by 11.6 percent from 1988, foreign assets held in the United States increased by 15.6 percent (*Press-Republican* 1990b).

Canada is the fourth largest investor in the United States (Fry 1987). Despite the fact that Canada is one-twelfth the size of the United States, historically it has invested in the United States twice as much as the United States has invested in Canada. From 1975 to 1985, Canadian investment in the United States was growing at an annual rate of 20.3 percent as compared with the 7.2 percent growth of the U.S. position in Canada. Thus, relative to the U.S. investment in Canada, Canadian investment in the United States was one-tenth in 1973 but increased to one-half by 1983-1984 (Rugman 1987). Ott (1989) noted that in 1988 Canadian investment accounted for 8 percent of total foreign direct investment in the United States. Of this, 27.8 percent was in manufacturing, followed by real estate (19.4 percent), trade (11.8 percent), and petroleum (10.0 percent). Also in 1988, Canadian investment controlled 1,773 companies in the United States. These companies employed over 600,000 Americans (for a total wage bill of \$16 billion) and accounted for \$4.4 billion in exports to the rest of the world, including Canada (Doh 1989).

In 1987, the importance of Canadian investment to New York State, including northern New York, was evident from the figures: it accounted for 23 percent (\$4.2 billion out of \$18.1 billion) of the total direct investment in the state. Canadian-owned companies numbered 185 (12 percent of the total) and provided employment to 41,000 New Yorkers (7 percent of the total number of Americans working for Canadian investors). Most Canadian investment has been "greenfield" rather than acquisition and mergers and thus has added to the revitalization of New York State (Doh 1989). Although Canadian investment is found in almost every county of the state, the bulk of the Canadian companies are concentrated in New York City, the Buffalo area, and northern New York. No precise figures exist on the value of Canadian investment in northern New York, although 40 percent of the 185 non-financial Canadian companies in New York State are located in this region. For northern New York, over 90 percent of foreign investment is Canadian-owned versus 8 percent for the United States as a whole and 23 percent for New York State (Gandhi 1989). The importance of the Canadian investment in the region is evident in other ways as well. For example, two-thirds of all manufacturing jobs in Clinton County in the 1980s stemmed from foreign investment, four-fifths of which was of Canadian origin (Soskin 1987).

Why do Canadians invest abroad, in the United States, in New York, and in northern New York in particular? To answer this question, a series of studies were made in the 1980s. In their classic study of 25 small Canadian companies operating in the United States, Litvak and Maule (1981) pointed to the relative size of the United States, growth potential, and increased access to the U.S. market as the most

important reasons for investing there. Among other important reasons, Canadian-owned companies pointed to the presence of U.S. tariff and non-tariff barriers along with their corporation's strength in technology and their experience with international business which gave them the confidence to undertake this investment. All other considerations seemed less critical. A similar conclusion was reached by Forget and Denis (1985), who found the pull factors of the United States in terms of market size, growth potential, and proximity to customers more important than the Canadian push factors, including taxation, unit labour costs and more restrictive regulations. Unlike Litvak and Maule, Forget and Denis did not consider tariffs significant. The influence of foreign tariffs on companies' decisions to invest abroad remains unsettled, however. A survey by Matheson (1985) of 18 Canadian-owned companies in the United States found tariffs and the desire to service the foreign market to be the principal factors in half of the decisions of these companies to invest abroad.

While such studies concentrate on the international flow of capital between Canada and the United States, they do not touch on the choice of locating such investment in particular regions of the United States once the decision to invest abroad has been made. Canadian firms, like any others, have to choose locations consistent with their corporate objectives. For Meyer (1968), location theory synthesizes "elements from almost all other places of economic analysis". Canadian companies consider New York State to be a gateway to the rich U.S. market. Their choice of a regional location in New York is dictated by their desire to be near their parent companies in either Ontario or Quebec (Gandhi 1985).

Findings of a 1989 Survey

In 1989, all Canadian companies (81) located in northern New York were sent a detailed questionnaire covering four broad areas of concern: (1) a profile of the New York company and its Canadian parent organization to determine the characteristics of Canadian businesses willing and able to invest abroad; (2) the factors responsible for location of the company in northern New York; (3) the company's assessment of the region as a place for business; and (4) the company's assessment of the effects of free trade in general and on its own operations in particular.⁴ Twenty-nine of the returned responses were

4. To place this survey in a historical context, in the mid-1970s 40 Canadian companies were identified in the region: 28 in Clinton County and 12 in the Black River-St. Lawrence portion of the region (including Franklin, Jefferson, Lewis, and St. Lawrence counties). At present, Clinton County, with its 52-56 companies,

considered usable.⁵

A typical Canadian company located in northern New York tends to be small with total assets of a little over \$830,000 (see Table 1). It has been operating in the region for eight and a half years and in all likelihood originated from Montreal and its surrounding region. Almost half of the respondents prefer this location to other locations in the United States, and at least two firms considered other foreign locations as well. The majority of the respondents are in manufacturing. At the time they opened their New York facilities, these companies were fairly successful in Canada. Over two-thirds of the companies were already familiar with the U.S. market through their export activity, amounting to about 10 percent of their total sales. Thus, their expansion to the United States was a logical follow-up and a strategic decision to their long-term success.⁶

The motives to invest in the northern New York region can be grouped in four categories: (1) locational considerations—factors that give this region an absolute advantage over other regions; (2) market considerations—factors that account for a company's survival and growth strategy; (3) production/cost considerations—factors that give this region a comparative advantage over others; and (4) economic considerations—factors that pull Canadian companies to New York State and not necessarily to northern New York (see Table 2).

With few exceptions, the results of the 1989 survey confirm the earlier studies. The concentration of Canadian companies along the Canadian-New York border reflects the desire of the Canadian firms to locate near their parent organizations. This factor, in fact, overshadows all other locational concerns, but it makes sense when one considers that most of the companies in the area are small, family-run businesses in which it is easier for the owner/manager to commute back and forth between the parent organization and its subsidiary for supervision and management. The need for proximity also may be critical in the initial stages when the local venture has to depend on

TABLE 1 Profile of Canadian Companies in Northern New York, 1988

Type	No.	Value of Assets	No.	Full-time Employees	No.
Manuf./assembly	16	<\$100,000	3	<10	12
Warehousing dist.	4	\$100,000-\$500,000	8	10-20	7
Export/import	4	\$500,000-\$1,000,000	4	20-30	1
Retail/whsle.	2				
Servicing	1	\$1-3 million	6	30-40	1
Const.	1	\$3-6 million	4	40-80	2
No response	1	>\$6 million	2	80-100	1
		No response	2	>100	1
				No response	4

the parent for clerical and managerial support, product design, and investment funds. The parent may like as well to have the offshoot nearby when flexibility in production runs or design changes are critical, again in the initial stages of production. In this connection, Canadian companies are attracted to the region by the good transportation network—especially highways, whose importance has been singled out by regional economists. Highways not only help move resources and output in and out of the region in the most economical fashion but also facilitate commuting between headquarters in Canada and subsidiaries in northern New York.⁷

It is worth repeating that Canadian companies are attracted to a New York location because they consider New York a gateway to the rich U.S. market. Locating there allows these companies to be near their customers as well as attuned to the changing market conditions in the United States. As in earlier studies, the importance of market size, growth potential, and accessibility to the U.S. market was clearly demonstrated by the survey.

Other assets of the region attracting Canadian companies include the availability of industrial space and the concentration of freight forwarding and customs brokerage firms related to the region's border location. While the space requirements of different firms vary with their types of economic activity (for example, warehousing versus manufacturing), the quality and the cost of this space are matters of concern. Indeed, this factor was important in the movement of business and industries to suburbia starting in the 1950s. The availability of

7. The concentration of Canadian investment in Clinton and Jefferson counties in the eastern and western parts of the region may be attributed to the excellent north-south highways. Interstates 81 and 87 connect the two most populous areas in the region (Watertown in the west and Plattsburgh in the east) to the metropolitan centres of Syracuse and Albany-Schenectady-Troy, respectively. Route 87 becomes Canadian Route 15 and connects the region to Montreal, and Route 81 goes north to Alexandria Bay, connects with the international bridge across the St. Lawrence Seaway, and provides a direct link to Toronto.

continues to dominate as home to almost 70 percent of the Canadian companies operating in northern New York. The number of Canadian companies in the region has doubled to 81 since 1975, with 56 in Clinton County, 1 in Essex, 4 in Franklin, 11 in Jefferson, and 9 in St. Lawrence. Lewis County now, as in 1975, has no Canadian company.

5. The response rate of 36 percent is quite respectable for a study of this kind. In 1983, Main Hurdman, one of the world's largest accounting firms, mailed 1,160 questionnaires to foreign-owned firms operating in New York City. They received 381 responses, yielding a rate of 33 percent. In light of that fact, along with the limitations of resources and time, a response rate of 36 percent is not insignificant.

6. By all counts, a typical Canadian company in the region is small and has been operating there for a shorter period than the average Canadian company in New York State. In northern New York, a typical Canadian company started with fewer employees, has expanded at a slower pace, and has smaller assets relative to its counterparts in the rest of New York State (see Gandhi 1985).

TABLE 2 Importance of Locational Factors to Canadian Companies in Northern New York

Factor	Extremely Important and Important	Somewhat and Not Important	Irrelevant	Non-respondents
<i>Local considerations</i>				
Proximity to Canada	27	—	—	2
Transportation, highway	12	8	6	3
Transportation, other	—	10	14	5
Quality of life	2	9	13	5
Area's natural beauty	—	8	16	5
<i>Market considerations</i>				
Closer to possible U.S. customers (market expansion)	13	6	6	4
N.Y. address (market strategy)	12	6	6	5
Closer to present U.S. customers	10	6	6	7
Tariffs and other barriers	2	1	1	25
<i>Production/cost considerations</i>				
Available industrial space	12	8	4	5
Freight forwarding/customs brokerage	10	9	5	5
Cheaper land/facilities	7	8	10	4
Trainable labour	5	10	9	5
Public services	4	9	11	5
Low electric rates	4	6	14	5
Cheaper labour	3	10	12	4
Higher skilled and productive labour	2	9	12	6
<i>Economic considerations</i>				
Industrial parks/sites	7	8	10	4
New York State incentives	7	7	11	4
Local incentives	4	5	15	5
Banking/financial facilities	3	9	11	6
Fewer regulations	3	3	18	5

industrial space at reasonable cost in the region is important not only for the initial attraction of the Canadian companies but also for future expansion. Similarly, cross-border transactions require easy access to freight forwarders and customs brokers to deal with the massive paperwork and avoid the delays of customs clearance. The border location of the region has traditionally attracted such international intermediaries, which, in turn, have helped the region attract Canadian companies.⁸

8. The importance of efficient customs clearance and the cost of delays in such matters received worldwide publicity in recent years in connection with the prospects of a unified Europe in 1992. The current cumbersome customs procedures affecting the transport of goods between European Community nations cost European businesses an estimated \$6 billion a year in delays and red tape (see "Europe Gets Ready for 1992", *Fortune*, 1 February 1988, pp. 81-84).

While other factors have been viewed as important by most of the companies, one is struck by the relatively little importance attached to such advantages as the natural beauty of the area, quality of life in the region, and New York State and local incentives, all of which traditionally have been advertised by regional development agencies to attract new business investment. It may well be that such factors are important to domestic U.S. firms thinking of investing in the area, but Canadian companies are simply not impressed by such advantages. In their cost-benefit analyses of New York State incentives versus taxes, Canadian companies consider such incentives to be "sweeteners" and no more. This finding is consistent with the results of other surveys of Canadian investment in the United States (Litvak and Maule 1981; Gandhi 1985; Forget and Denis 1985).

The most surprising result of this survey was the relatively lesser importance attached to the availability of cheap, trainable labour (non-unionized), another of the advertised advantages by local groups and one often mentioned by regional economists as among the critically important factors influencing location. The empirical evidence on the issue is mixed. Litvak and Maule (1981), on the one hand, have pointed to the importance of favourable labour costs (15-40 percent lower in the United States) and less labour unrest as important considerations for Canadian companies, although only a few are involved in labour-intensive manufacturing activities. Forget and Denis (1985) on the other hand, found U.S. labour not a major element in Canadian investment decisions. This survey of Canadian investment in northern New York revealed a similar finding since the companies surveyed employed small numbers of workers. This finding is comforting, however, in the sense that such companies are not those that would be attracted to the cheaper labour in Asia and Latin America.⁹

Although tariffs were not given as a major reason for investing in northern New York, this should not cloud the fact that non-tariff restrictions have been mentioned as important by Canadian companies. The nationalistic attitudes reflected in the "Buy American" campaign and the recent media ads touting "Made in the U.S.A." may have had something to do with Canadians getting a foothold in the United

9. Realistically, informal conversations with local development specialists always lead to the availability of trainable labour as an advantage for the region. Over the years, however, the attractiveness of cheap, trainable labour to Canadian companies thinking of investing in the region has gone in both directions. In a 1971 study (Gandhi 1971), labour availability ranked as the second most important location factor for Canadians (proximity was first). But in a 1985 study (Gandhi 1985), labour was only moderately important (sixth in rank) and far below such factors as potential for market expansion in the United States, as well as the highway transportation network.

States rather than the tariffs themselves. From that perspective, Canadians mentioned the advantages of a New York State address as an important marketing strategy. Along with their familiarity with the neighbouring market, Canadian companies obviously prefer locating in northern New York (Harrington et al. 1986).¹⁰

In summary, the motives for Canadian companies to invest in northern New York can be viewed in terms of transaction costs in serving the U.S. market (Rugman 1987). Canadian companies want to minimize these costs, and for this, northern New York has a clear-cut advantage over other locations in attracting Canadian investment.

Reactions to Free Trade

Table 3 summarizes the responses of Canadian companies to free trade between Canada and the United States. While it may be difficult to project from their responses the exact effects on future investment by new Canadian companies, some tentative observations can be made based on this survey, historical experiences, the available data, and familiarity with the literature on free trade and international business in both North America and abroad.

Canadian companies do not care deeply about the worldwide liberalization of trade, and they are reluctant to see a greater integration of the two countries beyond the free trade arrangement (such as that under way within the European Community). They strongly favour, however, a greater liberalization of trade, investment, and immigration between Canada and the United States. Seventy percent of the companies responding to the questionnaire expect to benefit from free trade. Fifty-five percent of companies expect to expand their operations in northern New York as well as elsewhere in the United States by opening other branches. Whatever they may do, the positive thing for the region is that none expect to close their operations there. If tariffs were not that important in their location in the region in the first place, free trade will not materially affect their operations, and these companies will continue their planned expansion with or without free trade. Some adjustments may be made, however, to achieve rationalization of production and consolidation on both sides of the U.S.-Canada border.

Some of the critical concerns of the region had to do with the future of capital inflows from Canada under free trade since any reduction could threaten the economic viability of the region. These concerns echo those expressed by Ontario in opposing free trade. Would

10. The 1985 study of the region (Gandhi 1985) puts tariffs as moderately important, trailing even the factor of trainable labour.

TABLE 3 Attitudes of Canadian Companies toward Trade Options

	Strongly Favour/ Favour		Neutral	Oppose/ Strongly Oppose	No Response
	No.	%			
World free trade	10	41	8	6	5
Complete free trade between Canada and U.S.	21	80	3	2	3
Unrestricted flow of invest- ment between Canada and U.S.	23	92	2	—	4
Unrestricted flow of personnel between Canada and U.S.	22	84	1	3	3
Common market arrangement between Canada and U.S.	13	54	9	2	5

free trade transform Canada (northern New York) from a "branch plant" economy to a "warehouse" economy? Not necessarily. Literature on free trade distinguishes between unilateral versus bilateral removal of tariffs, and the FTA involves a mutual elimination of trade barriers. It also aims to free investment between the two countries and provides national treatment for each other's companies. Under these conditions, Canada and the United States would become one large economic unit in which each region would have to compete for investment. How successful each region will be in attracting new investment or retaining what it has will depend on the costs/benefits (transaction costs) for businesses in locating there. Some of the reasons suggesting a continuation of the Canadian investment inflows to northern New York are the dynamic effects of rationalization leading to specialization in product lines, establishment of product niches, and product life cycle creating new product lines (Burgess 1987). The recent inflow of fresh Canadian investment and new companies into the region from Canada attests to the accuracy of the sentiments expressed by the older companies in the area.

But any analysis of free trade and its effects on northern New York must take into account the area's physical location. The central location of northern New York under free trade between the two main U.S. economic heartlands should encourage the establishment of firms from Canada, the United States, and other countries wishing to service an expanded North American market. Since the FTA will undoubtedly divert some trade from the rest of the world, this may help attract new investment from the other countries—an area of investigation so far neglected in the economic development strategy for northern New York. That, however, is another story.

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