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Abstract

**Multilateral Trade Liberalisation and FDI: An
Analytical Framework for the Implications for Trading
Bloc**

Pascal L. Ghazalian

*Assistant Professor, Department of Economics,
University of Lethbridge, Lethbridge, Alberta, Canada*

Ryan Cardwell

*Assistant Professor, Department of Agribusiness and Agricultural Economics,
University of Manitoba, Winnipeg, Manitoba, Canada*

The proliferation of regional integration agreements (RIAs) over the past several years has led to significant changes in the global configuration of trade and investment activity. Multinational enterprises now face the prospect of multilateral trade liberalisation that could significantly affect the foreign direct investment (FDI) incentive structures that were established within the range of current RIAs. RIAs that provide preferential market access to member countries modify firms' incentives to undertake FDI activities and can lead to various permutations of trade and investment creation and diversion. This article provides an analytical framework for understanding the implications of multilateral trade liberalisation for the incentive structures of firms to conduct FDI and discusses how multilateral liberalisation could undo many of the FDI activities that were initiated in response to previous RIAs.

Keywords: foreign direct investment, incentives, multilateral trade liberalisation, regional integration agreements.