

country.⁶⁴ Industries in which there is high value-added and low transportation costs would create more of an opportunity for export. The automotive, electronics and communications sectors are examples of industries in which there could be higher propensities for the MNE to export. If the MNE is active in an industry that must produce locally in order to penetrate local markets, because of high tariffs, high transportation costs or some other reason, then there would be little scope for export.

4.1.4 How far should we go?

A relevant question is how much foreign investment is good? How much does FDI contribute to economic growth, and does this outweigh its direct costs (i.e., income paid in dividends, royalties, etc.) and indirect costs (i.e., potential market concentration or loss of sovereignty)? The encouragement of MNEs to locate in Canada must be tempered with realistic expectations of their effects on the domestic economy. Although this Paper argues that, on balance, the presence of Canadian affiliates of foreign MNEs is beneficial for the domestic economy, and that countries can no longer close themselves off from investment because of the new global competitiveness pressures, it is important to remember that MNEs and FDI will not heal all Canada's trade, investment and productivity woes. The direct and spillover benefits of foreign-owned affiliates in Canada can be noteworthy. But, the costs of encouraging very large investments need to be clearly weighed against the benefits on a case-by-case basis. A positive long-run outcome should be the criterion for the pursuit of any policy.

4.2 Policy Suggestions

4.2.1 Policy independence and globalization: a caveat

Although policy makers may wish to respond to the more globally focussed firm by pursuing strong policies with regard to FDI, they may find that some traditional policy options are becoming increasingly ineffective. Globalization implies that domestic policies have increasing international ramifications and vice versa. Domestic policies such as fiscal policy can set up barriers to FDI and trade or cause MNEs to locate in other countries. Globalization of MNEs may also result in more "footloose" production. That is, MNEs could move their affiliates from country to country more easily to exploit location advantages optimally. Traditional policy

⁶⁴D. Seebach, *op. cit.*, p. 17.