

4.1.2 Producer effects

Producers can also benefit from positive externalities through technological spillovers. The presence of MNEs may speed the transfer of technology and other intangible assets, such as knowledge.⁶² Personnel trained and employed by the MNE in the host country might receive special training, knowledge and skills that can then be transferred to domestic firms. Since these employees would be highly sought after by domestic firms, it is argued that they would quickly be of benefit to domestic producers. Foreign scientists and R&D specialists employed in the MNE may also be induced to "jump ship" and transfer their knowledge to domestic firms. Further, the very presence of the MNE can increase domestic industry competition and cause domestic firms to increase productivity. This can lead to the employment of more sophisticated technology and increased R&D to ensure future competitiveness.

Evidence has been found in several studies that support the spillover benefits hypothesis.⁶³ Although analysis was not carried out in depth, it was found that productivity levels of domestic firms increased with the foreign subsidiaries' share of the market. Increasing productivity is one of the best ways to ensure continued economic growth and a rising standard of living. To the extent that domestic firms are forced to adopt more competitive production techniques, they could also become more globally competitive and increase exports.

Local competitors might, however, be concerned that the MNE's entrance will mean enhanced competition. Those local firms that cannot or will not rationalize their behaviour and become more competitive will be forced out of the industry. Although this can be seen as good from a productivity perspective, the local industry often will not be supportive. The argument that too much industry concentration is socially inefficient is also valid. MNEs may end up with too high a share of market power and may be able to squeeze even potentially competitive local firms out of the market.

4.1.3 Trade effects

The existence of MNEs has been shown empirically to have a positive impact on trade, mostly because of increased absolute levels of intra-firm trade. Whether a MNE has a high degree of exports depends more on the industry than on the host

⁶²Berstein, *op. cit.* and Blomstrom *op. cit.*, for example.

⁶³S. Globerman, "Foreign Direct Investment and 'Spillover' Efficiency Benefits in Canadian Manufacturing Industries", *Canadian Journal of Economics*, 12 (1), 1979.