

Fourth, the domestic policies of the host government can complement the promotion of an open trading environment through the provision of public goods such as infrastructure, information, and education. The evidence shows that multinationals prefer to operate in economic environments where the production of these goods is a high priority for the domestic authorities. Indeed, the transfer of intangible assets (knowledge, skills, management and production techniques, etc.), a primary benefit of FDI, would appear to be much more easily realized in such environments. In short, the provision of adequate levels of public goods in conjunction with a policy approach emphasizing open and unrestrictive domestic markets would be the best incentive to attract FDI.

Fifth, as noted in an earlier section, the transfer of intangible assets is viewed in some analyses as providing more positive impacts on a host's economy than capital transfers. Thus, an investment policy environment emphasizing the transfer of technology and other intangibles can also be promoted. However, the design of the policy incentives should take into consideration the neutrality condition for trade and investment policies and be complementary to the policies focused on providing public goods.

For Canada, the government should continue to promote trade liberalizing policies, evaluate trade and investment policies on a neutrality or non-discrimination basis, and maintain a high priority for infrastructure development and maintenance, the efficient exchange of information and education and training.

7.2 Canada as an Outward Investing Country

As shown earlier, Canada has not only been successful at attracting FDI, but has also become a source for outward FDI. Outward FDI is often the result of changing locational comparative advantage patterns. As such, the investing economy may develop problems related to structural adjustments. The primary problems include: the immediate loss of jobs that may occur as a result of production transferred offshore; the possible loss of export markets abroad; and the loss of domestic market share to increased imports from foreign affiliates abroad. Yet, the evidence for the United States shows that outward FDI has not led to loss of export markets abroad and that increased multinational trade has not appreciably worsened the United States trade balance.³² Indeed, an examination of intra-firm trade between Canada and the U.S. showed that Canadian parent corporations exported 5 times the amount of goods to U.S. affiliates as compared to the imports by Canadian parents from their U.S. affiliates. Therefore, the problem is not so much loss of economic opportunity, but rather restructuring or adjustment to that opportunity.

Thus, an important policy response for the investing economy would be to adopt policies which facilitate smooth adjustment, especially in the labour market. Structural adjustment is inevitable and attempts to insulate and protect the investing economies will

³² See *United States Department of Commerce, Bureau of Economic Analysis (1983, 1985) and Ramstetter (1987)*.