

4. POLICY IMPLICATIONS FOR CANADA

4.1 Why encourage MNEs to locate in Canada?

4.1.1 Consumer effects

The entry of foreign firms potentially increases competition in host country markets and forces inefficient domestic firms to adopt efficient methods or face bankruptcy.⁶¹ MNE affiliate production in the host market could increase the diversity of products available to consumers, and/or lower prices. If affiliates produce goods or services (or varieties thereof) that were otherwise unavailable in the home market (and it should be noted here that these include brands like Coke or Pepsi which might compete with local brands) then the welfare of consumers can be increased because the number and variety of consumption choices has been expanded, even if disposable income has not risen. If prices are also lower as a result of increased competition in the market, this would also benefit consumers who find that their budget constraints have been relaxed and they have more money to spend on other goods. These effects increase consumer welfare.

On the other hand, if MNEs push local competitors out of the market, this could have deleterious effects on consumers. MNEs that are large and powerful could successfully pursue predatory pricing so that local firms are unable to compete. If market concentration increases as a result of MNE entry and MNEs are able to pursue monopolistic pricing and production policies, the result could be a net reduction in consumer welfare.

It should be noted that these consumer effects can be, and are often, overlooked from a policy perspective, because consumers are a large, heterogeneous group with no collective political power or voice. Special interest groups such as labour unions or large domestic firms can express themselves politically and exercise influence over investment and trade policy. What these groups would see as a potential threat of job losses or increased competition is at least partially offset by the benefits received by all consumers. Policy makers should take overall social welfare into consideration when formulating policy, although this is difficult when political pressure can best be exercised by relatively homogenous, well-organized, well-funded groups.

⁶¹M. Blomstrom, "Host Country Benefits of Foreign Investment", *Foreign Investment, Technology and Economic Growth*, 1991, p. 96.