

less defence-related and more commercial, while increasingly moving from basic research to "precompetitive" or generic research. These issues revolve around the right of national governments to set R&D policy and questions of "vital" national interests which are often clouded by questions of "national security", real or perceived. The need for further international disciplines on the level and nature of R&D subsidization should be carefully analyzed in light of budgetary pressures and some recent economic work that qualifies the usual link made between incremental R&D expenditures and growth in certain circumstances.

Investment Incentives

The complementary relationship between trade, in both goods and services, foreign direct investment (FDI) and technology is increasingly evident. In contrast to the early 1960s and 1970s, when small teams of innovators and small amounts of venture capital went a long way in fields such as biotechnology and microelectronics, size, financial weight, vertical integration and market share are increasingly as important as R&D for commercial success.

If trade policy can aim to restrict government activity influencing investment performance requirements, it is clear from this study that we must also be prepared to deal with government practices that promote investment through incentives or subsidies. The incentive side of investment regimes is often neglected at a time when beggar-thy-neighbour domestic subsidies and massive investment incentives represent a game that Canada can no longer afford to play.

Government Procurement

Due to the magnitude of the spending involved, public procurement is one of the most important trade-related issues for high technology industries and an important source of demand for products and services such as aerospace, electronics, information technology and biotechnology. Multibillion dollar U.S. federal technology contracts offer enormous leverage into both public and private sector business developments. After successful performance on such teams, Canadian firms would improve their odds of obtaining future contracts with the prime contractor and others on public or private sector and international government bids.

Targeted government procurement, like subsidies, is used as a policy instrument to reinforce government support for advanced technology industries with spinoffs from technology development transferred to other commercial applications. Moreover,