

potential, while this same environment will increase the likelihood of spillover absorption by local firms. This can result in a 'virtuous circle' of productivity and technology instead of the 'vicious circle' that can occur if an MNE is allowed to operate without competition and falls behind global standards.⁷²

Encouraging highly competitive local industries would also have the side benefit of improving export performance. Studies have shown that MNEs operating in highly competitive sectors have higher propensities to export than those in non-competitive markets.⁷³

4.2.5 The importance of fundamentals

Although the point that FDI is not a substitute for sound domestic economic policies is seemingly obvious, it is important enough to warrant repetition. FDI should not be viewed as the remedy for poor productivity, or inferior export or domestic investment performance. The domestic economy cannot indefinitely "borrow growth" through foreign investment. The benefits of FDI cannot be fully realized without the macroeconomic fundamentals of sound fiscal and monetary policies aimed at providing low inflation and sustainable growth. Domestic industries must be productive, adaptable and competitive in order to survive and thrive, globally and domestically. The economic environment in which these firms operate is increasingly influenced by international forces and domestic economic policies are being increasingly affected by international conditions. Canadian economic and trade policies need to be complementary with those of our trading partners in order for businesses to compete effectively at home and abroad.

⁷²Blomstrom, *op. cit.*, p. 101.

⁷³Seebach, *op. cit.*, p. 17.