Canada should work multilaterally and bilaterally to restrict direct R&D locational inducements offered by other countries. Direct inducements can turn into bidding wars in which the gains from foreign-affiliate R&D are substantially eroded. All policy makers need to be aware of the opportunity costs of their programs. If the socially efficient amount of R&D can only be achieved at a cost equalling or exceeding the whole amount of the gain over the privately efficient solution, then there is no net gain and the policy should not be pursued.

Technology transfer requirements are largely ineffective in increasing the amount of technology diffused into the host country and should not, as a general rule, be applied. At best, these requirements result in the diffusion of a larger share of a smaller stock of technology. An exception may very occasionally be warranted when there is a foreign takeover of a firm already engaged in core R&D activities. There is evidence to indicate that foreign takeovers of such firms can have negative effects on R&D performance and social benefits. Therefore, it may be important for Canada to retain the ability to impose technology-related performance requirements in carefully selected circumstances.

**Competition**

Competition policy has a definite role to play in ensuring that the benefits of FDI and the new, global MNE are fully absorbed while the potential costs to the host country are minimized. Although competition policy should not be used to limit FDI, it should facilitate the positive spillovers associated with the presence of foreign multinationals while guarding against over-concentration of market power. FDI should be encouraged, but with the important caveat that the MNE face competition and not be allowed substantial industry control.

Supporting competition in the industries in which MNE affiliates are present could provide several important benefits. First, the MNE is forced to adjust to competition by continually upgrading its production processes. This can benefit consumers by providing cheaper, better quality products. Second, a continuous inflow of technology, encouraged by this competitive environment, increases the spillover potential, while this same environment will increase the likelihood of spillover absorbtion by local firms. Encouraging highly competitive local industries would also have the side-benefit of improving export performance; MNEs operating in competitive sectors have higher propensities to export than those in non-competitive markets.