because they target only the source of the diffusion, the MNE, but do not concern themselves with ensuring that the technology is actually used productively in the domestic economy.

An exception may very occasionally be warranted when there is a foreign takeover of a firm already engaged in R&D activities. The OECD's findings would indicate that foreign takeovers of firms engaged in R&D can have negative effects on R&D performance.[71] Therefore, it may be desirable to maintain some policy instruments preventing this, such as transfer requirements. Under the NAFTA, provisions remain to ensure that Canada holds the threat of implementing technology requirements in certain situations. For example, an MNE may wish to purchase a Canadian company that is currently actively involved in core R&D, solely for the purposes of exploiting its market access. If R&D performance is substantially threatened, it may be necessary to deploy technology performance requirements. Nonetheless, the use of this instrument should be infrequent and carefully targeted. Otherwise such government intervention could undermine Canada's profile as a preferred site for investment.

4.2.4 Fostering domestic industry competition

The salient question here is what is considered positive for the Canadian economy? If competition is considered unequivocally good, then policy makers should attempt to foster it. Competition policy should be used not to limit FDI, but to facilitate the provision of spillover benefits to domestic industries and consumers. FDI should be encouraged, but with the caveat that the MNE face domestic competition and not be allowed substantial industry control.

Supporting competition in the industries in which MNE affiliates are present would have two 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

[71] An Investment Canada study authored by Regional Data Corporation, *Business Performance Following a Takeover,* April 1992, p. 19, found that, after foreign acquisition, R&D intensity in the manufacturing industry increased substantially at a time when the intensity for manufacturing as a whole fell. These findings seem to be flawed by the dominance of the effects of acquisition of a small number of firms in the electrical industry. The use of a mean instead of a median measure drastically overstates the positive effects because the electrical industry's observation is an outlier. In fact, in almost half the manufacturing sub-categories, Canadian firms taken over by other Canadians had higher R&D intensities than those taken over by foreigners. This is more consistent with OECD findings.