investors based outside North America seems logical and consistent with the practice of other OECD members. Any merger or acquisition would still remain subject to review under the terms of the Competition Act.

However, it is useful to recall here the propensity of foreign investors in manufacturing to engage in intra-firm trade favourable to the parent country[32], as well as the major role that large firms can play in stimulating research and development and Canada's poor R&D record. In this light, it would be prudent to retain the current threshold, thereby permitting the review of major acquisitions for net benefit to Canada, as well as the ability to link government funding to R&D performance requirements. Canada should retain some modest, judiciously managed regulatory leverage.

By being a party to trade agreements, Canada ensures that investors here enjoy at least the same access and security of access to key markets and the same ground rules encouraging research and development as our major competitors. These are important gains that should be preserved and extended through the implementation of NAFTA and the establishment of improved multilateral rules, preferably through the successful conclusion of the MTN. Moreover, the acceptance of these obligations by other countries provides greater security abroad for Canadian investors seeking to undertake R&D, marketing and other alliances, while exporting heavily to overseas affiliates. In this regard, the trade policy agenda for the rest of the decade will also have to address positively the adherence of other, particularly non-OECD countries to international norms. Accessions to the NAFTA and the negotiation of further bilateral Foreign Investment Protection Agreements (FIPAs) represent two useful approaches.

As we move further into the 1990s, trade policy will be called upon to address other issues that will have an impact on Canadian competitiveness and our investment climate. For example, the economic inefficiencies created by continuing restrictions in the transportation sector must be addressed, including the U.S.'s highly distorting maritime shipping practices and the lack of adequate competition in domestic routes for all modes of transportation (i.e., cabotage restrictions). The competitiveness of Canada's domestic telecommunications structure and tariffs requires a close look and has a clear impact on Canada's attractiveness as an investment site. The interface with investment also underlies much of the detailed discussion related to the next three topics of this paper: competition, innovation and environmental policies. Each will figure more prominently in the 1990s. Each can help or hinder investment and growth prospects in Canada depending on the success we have in identifying the relevant connections and developing a set of mutually reinforcing responses.

[32] With Big Three auto trade being a major exception.