

proprietary technology, foreign governments can and have waived regulations. In other cases, small Canadian firms lacking market power are unable to exploit their comparative advantage in proprietary technology to gain access to consortia. Certainly the rules of participation are skewed to favour domestic industry but, in general, Canadian firms can circumvent them by establishing a domestic presence in the host country.

Does this domestic location requirement, which appears to be almost universally applied, distort investment patterns? The answer is surely affirmative, although precise measurement is impossible as a practical matter. It may be possible to analyze this quantitatively by correlating foreign direct investment (FDI) with government expenditures on industrial R&D for various industries. Intuitively, we can see that this bias in favour of a domestic location may be one aspect of the global competition for FDI dollars. New technology stimulates investment with its implied economic benefits. By encouraging firms to locate R&D within national borders, governments hope to secure the lion's share of the economic benefits arising from new technology in terms of increased market share in global markets, and from new investment in terms of job creation. There is a need for further study of the linkage between innovation and investment.

What is equally important is the question of access to product markets. If a key benefit of participation in technology consortia is access to a network of contacts and market information, then lack of access to this mechanism could imply operating at a competitive disadvantage.<sup>81</sup> This argument may be overstated if one considers that many publicly funded consortia are politically motivated and do not always attract the key players in an industry. However, there is little doubt that technology consortia, even politically motivated ones, have been responsible for promoting stronger networks within domestic (and, in the case of the EC, regional) industry. Can access to these networks afford small and medium sized enterprises with a cost effective means of entering new markets? There is a need for further analytical work on the role of consortia, and in particular their function in penetrating new markets.

Should the profile of this issue be raised in Canadian trade policy? Yes, because the literature strongly suggests that technology may be a key source of shifting comparative advantage and that Canada has much to lose by allowing others to develop and determine how intellectual property rights should be assigned in

---

<sup>81</sup> A Canadian company with foreign subsidiaries wrote in the following observation: "It occurred to me after your call that I probably had not stressed adequately the value that this type of programme can have in fostering supplier, customer, sub-contractor and Institute/University type collaborative links. [Our company] is continually trying to develop closer network type relationships that help our understanding of customer needs and aspirations, and the technologies that might be used to address these needs."