policy choice not to use them for other purposes, such as regional or social development. Finally, there is an additional consideration in the subsidization of non-renewable resource exports, i.e., to do so in effect discounts the intrinsic value of these resources for present and future generations of Canadians. Accordingly, Canada's fiscal regime must take account of our relatively limited capacity to provide tax incentives to export activities, while ensuring that it contributes as much as possible to competitiveness and secures for Canadians the gains from exports, particularly of resource-based exports.

In order to achieve its broad economic development objectives, Canada has historically relied on foreign *investment* to supplement domestically generated capital. The size of the country and the substantial supply of natural resources have dictated a large need for investment in infrastructure and resource development beyond the normal capital requirements of any modern, productive economy. This has required a relatively large dependence on off-shore investors and resulted in a high level of foreign participation in many sectors of the economy.

The government's domestic investment policies have aimed at encouraging the development of Canada's resource wealth, the further processing of these resources, development of indigenous research and development, and the location of productive investment in economically disadvantaged regions. This has been achieved by means of a combination of fiscal measures, loans, incentives, technical assistance and direct government participation in the economy. As a result of the recession, the need for both short- and long-term capital is as acute today as ever. Many companies, in the face of falling demand and high interest rates, cut new investment to the bone. While such a situation is tolerable in the short-term, it now needs to be reversed if Canada is to remain internationally competitive. The capacity of Canadians to take advantage of market opportunities, both at home and abroad, will thus be increasingly dependent upon further direct investment leading to a greater capacity to develop new products, innovate through the greater use of the latest technologies, and a strong research and development performance. The need to encourage this new investment will be one of the major challenges facing government as economic recovery takes hold.

The level of protection afforded to Canadian industries was historically a major factor inducing foreign multinationals to establish subsidiaries in Canada. However, as a result of the gradual and substantial reduction in Canadian tariffs in successive reciprocal international trade negotiations, the customs tariff is now less important in determining the location of investment. Meanwhile, government policies have encouraged many foreign subsidiaries to rationalize their production and to specialize and obtain product mandates as well as mandates to pursue independent research and development projects from the parent corporation to produce for world markets. Many multinational companies are restructuring their operations allowing local companies to produce one product for the world market and using that subsidiary to market the full range of products. Thus, to the extent that this becomes accepted and established by MNEs, the nature of foreign investment will have altered in focus.