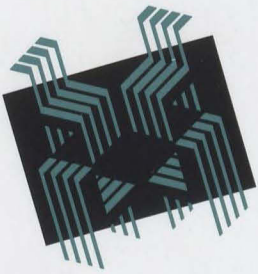


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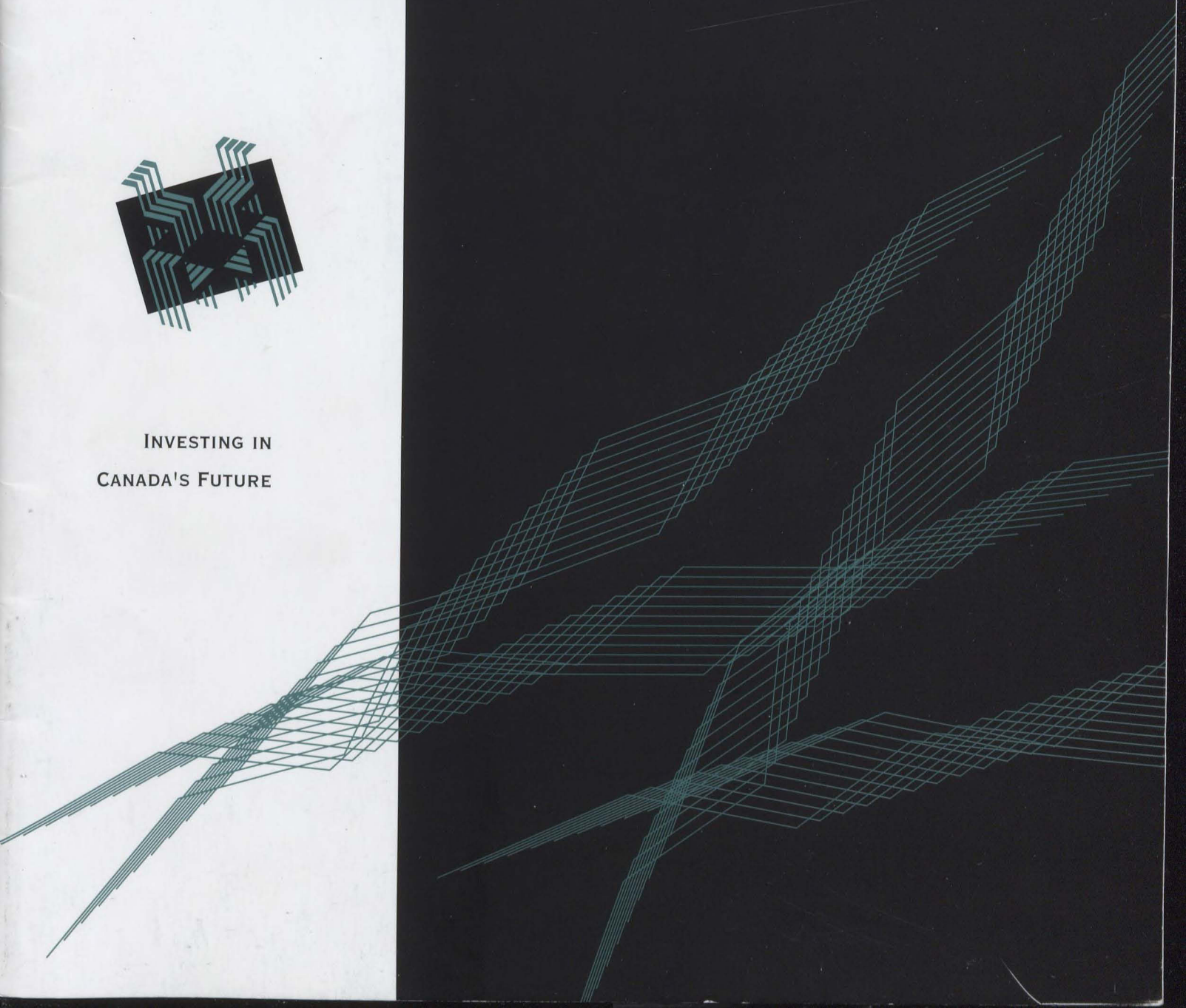
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Investment *forum* de l'Investissement

POINTS FOR DISCUSSION



INVESTING IN
CANADA'S FUTURE



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INVESTMENT CANADA
AN INVESTISSEMENT CANADA

POINTS FOR DISCUSSION ■

INTRODUCTION

FORMAT FOR THE CONSULTATIONS

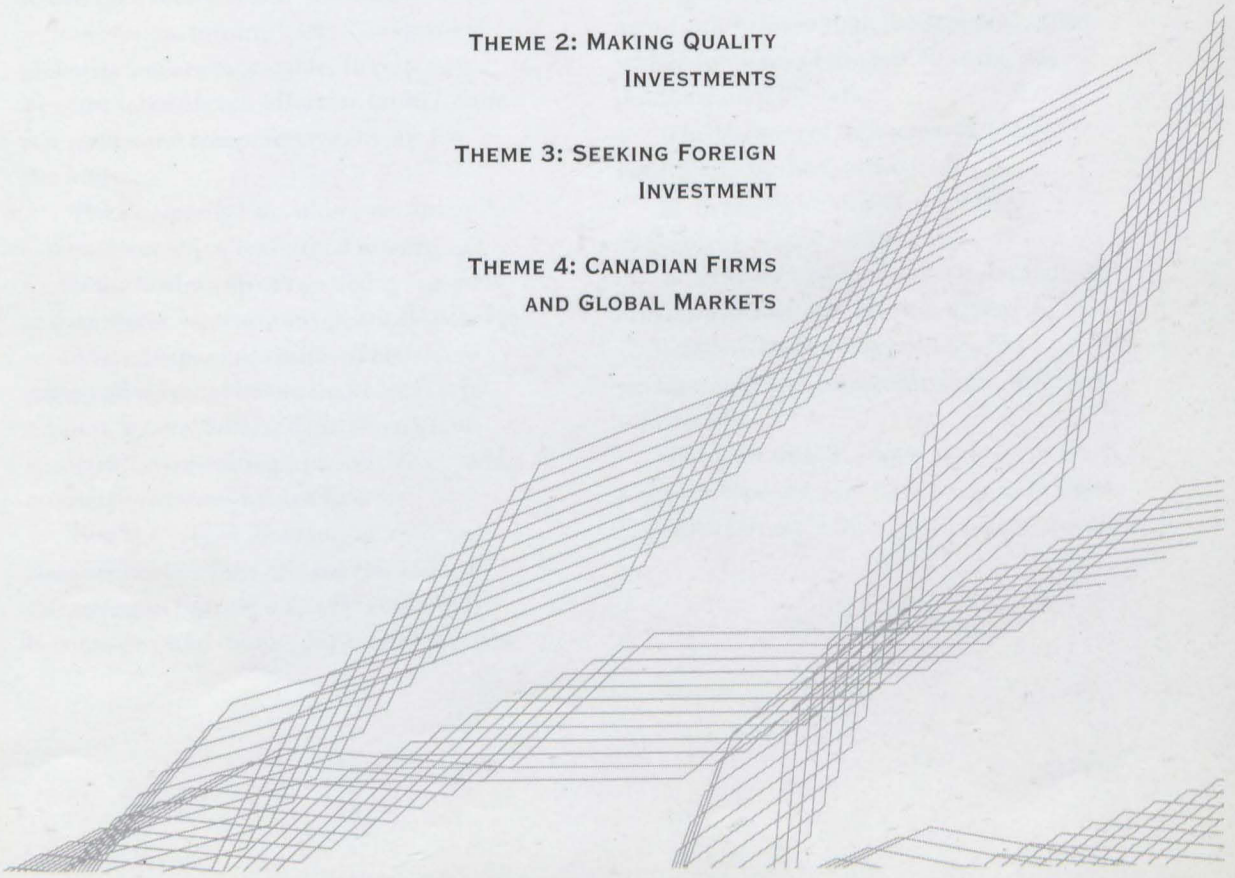
PREFACE

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INTRODUCTION

Michael Porter's report *Canada at the Crossroads* draws attention to the "old order" under which Canadian industry developed, and the need for a "new order" based on global competitiveness.

Since 1984, the Government of Canada has introduced reforms designed to shake off the "old order". A much more market-oriented approach has been the common feature of these reforms, in recognition that the private sector's vitality will ultimately determine Canada's competitiveness.

Deregulation, privatization, tax reform, liberalization of foreign investment policy, greater emphasis on training and other measures to improve the employment potential of skilled workers, free trade with the United States, deficit reduction and control of inflation are major elements of the Government's Agenda for Economic Renewal. Predictably, the world recession has caused some critics to call for a return to the "old order". There is, however, no turning back. The forces of globalization are inexorable. In response, we must intensify our efforts to build a more innovative and competitive economy for the future.

The Prosperity Consultations, which the Government launched several months ago under the leadership of two highly-regarded private sector representatives, are expected to result in an expanded course of action engaging all stakeholders in the economy. In support, several federal departments and agencies are consulting with outside experts on competitiveness-related issues.

Few issues bear more importantly on competitiveness than investment. Indeed, "investing in Canada's future" could well become a central theme of the 1990s agenda.

Canada's investment effort, defined as the ratio of gross fixed capital formation to Gross Domestic Product (GDP), remained remarkably steady over the last two business cycles. As illustrated in Chart 1, the investment effort averaged 15 per cent from 1974 to 1989. After discounting for depreciation of capital, however, the investment picture appears less stable. Net fixed capital formation (gross fixed capital formation less capital depreciation) to GDP averaged 1.7% per cent over the 1982-89 business cycle whereas it averaged 3.1 per cent over the previous business cycle (1974-81).

While Canada's investment effort in general does not suggest a crisis, it is unsettling that in the key area of machinery and equipment, which embodies much of the technological advances of the economy, Canada's investment performance falls short of its major competitors. Although it has been rising since the mid-1970s, it is still significantly lower than the Japanese effort which, for many of the last 20 years, was double that of Canada.

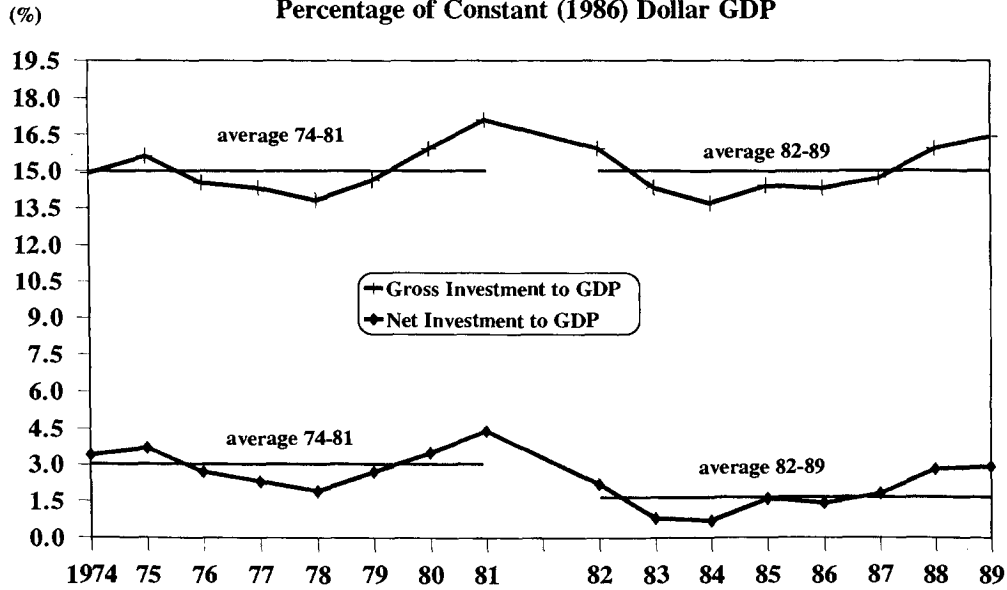
The purpose of these investment consultations, then, is two-fold:

- to gain your views concerning investment-related matters; and
- to share with you some of our findings about the investment effort required if Canada is to improve its productivity performance and realize environmental and other goals.

Through such dialogue, we hope to reach a clearer consensus on what needs to be done to realize Canada's investment requirements.

INTRODUCTION

Chart 1
Trends in Gross and Net Capital Formation
Percentage of Constant (1986) Dollar GDP



Source: Investment Canada compilations using Statistics Canada data

FORMAT FOR THE CONSULTATIONS

After a plenary session, during which Jean McCloskey (President of Investment Canada) and other experts will outline the main elements of the investment challenges facing Canada, concurrent workshops will be held on four themes. The focus of the workshops will be on the experiences and ideas of the participants. The following sets out key issues that experts may address:

Theme 1:
**THE NATIONAL INVESTMENT
CHALLENGE**

An opening presentation will make the case for a considerably-increased investment effort during the remainder of the 1990s. If workshop participants accept this view, the discussion should address how this increased effort could be accomplished. Increased investment means increased savings and relatively less consumption. It also means having a positive business climate. Key variables affecting investment decisions (e.g., Canadian tax levels, the cost of capital and skill levels) must be reviewed and agreed upon. To these ends, greater co-operation among business, labour and government will be needed.

Theme 2:
MAKING QUALITY INVESTMENTS

The quality of investment is as important as the quantity. An opening presentation will provide a review of the experience in the 1980s when Canada's productivity performance was poor compared to its major competitors. Was the quality of investment partially responsible for this? We need to

invest smarter, not just more. Again, the investment climate in Canada will be critical. We need to know whether the right market signals and incentives are in place to guide investment to where it will be most productive. National data fail to reveal the situation industries and individual firms in Canada face relative to competitors in other countries. Hence, one purpose of these consultations is to gather firm-level information bearing upon investment decisions.

Theme 3:
SEEKING FOREIGN INVESTMENT

Fundamental issues here are the role of foreign investment in strengthening Canada's competitive position and how the desired level and quality of this investment can be realized. To help give some perspective to this issue, the Government is seeking input into the regulatory provisions necessary in international agreements (e.g., the proposed North American Free Trade Agreement and the Canada-United States Free Trade Agreement) to best advance our business and other interests and how best to promote investment in Canada. On the promotion side, two questions will be explored: What can be done to improve access to international investment enjoyed by Canadian businesses? How can Canada improve its efforts to attract global businesses to make new investments here?

FORMAT FOR THE CONSULTATIONS

Theme 4:
**CANADIAN FIRMS AND GLOBAL
MARKETS**

Globalization, or the increasing integration of national economies, has accelerated and is transforming the way business is structured and conducted. An opening presentation will review the main features of this "sea change", noting in particular the growing inter-

relationship between investment, trade and technology. Investment, including Canadian direct investment abroad, must intensify to respond to globalization. Firm-level information is needed to judge how the Canadian business community is responding and how the public sector (federal, provincial and municipal) could help. Of particular concern is whether the public sector is properly organized to give maximum support.

PREFACE

- Recent work undertaken by and for Investment Canada has identified the following themes as important to Canada's future economic performance.
- It is hoped that all participants will agree that a discussion of these themes in workshop sessions will be productive and useful.
- If, in your view, these themes do not capture important investment considerations, please tell us during the workshops and feel free to identify other issues.
- Thank you for your participation.

THEME 1: THE NATIONAL INVESTMENT CHALLENGE

Points For Discussion

- What do we mean by the nation's investment effort and how do we compare internationally?
- How does Japan manage to have an investment effort double that of Canada's, particularly in respect to business investment in machinery and equipment?
- How could an intensified investment effort in Canada be realized? Will it occur automatically in response to market forces or will it take a concerted national effort?
- How can Canada generate the domestic savings necessary to support an intensified investment effort? What are the prospects for a substantial reduction in public sector dissavings as economic recovery improves?
- What partnerships are needed between business, labour and government to intensify Canada's investment effort? Is investment and innovation still perceived as a threat to job security and, if so, what can be done to create a more positive response?
- Is the state of public infrastructure a major problem? From a business-competitive perspective, what are the priority areas for improvement?
- What are the sectoral dimensions of an intensified investment effort? Is the manufacturing sector in particular need of an investment infusion?
- What are the key government policies that bear upon Canada's investment effort?
 - tax policies (including payroll taxes)
 - interest rates/exchange rates
 - internal and external trade policies
 - price stability
 - deficit control
 - environmental and other regulations
 - social policies
- In these policy areas, how does Canada compare to its major competitors?
- What broad policy changes or initiatives would materially improve Canada's investment effort?
- What are particular concerns at the sectoral level? The firm level?

THEME 2: MAKING QUALITY INVESTMENTS

Points for Discussion

- Why was Canada's productivity performance during the 1980s so disappointing when investment was relatively strong? Has the quality of investment been poor?
- How can the quality of business investment be improved to avoid some of the pitfalls that occurred during the 1980s? How can excess capacity (e.g., commercial property) be minimized?
- Where should Canada be investing? Should the high-technology sector be more heavily favoured? Is Canada losing out to the rest of the world in high-growth sectors?
- Given the vital importance of a highly-skilled and mobile labour force, how should investment in physical capital be linked with investment in human capital? What needs to be done to better integrate investment in innovation and investment in training?
- How can Canada best rationalize domestic investment opportunities with international opportunities? Can we integrate our resource, tertiary and manufacturing sectors with low-wage countries such as Mexico?
- What have been firm-level experiences to date with freer trade relations? What type of investment has proven to be of major benefit? What has proven disappointing?
- Has there been a serious cross-border movement of business to the United States? Is this a reflection of global rationalization or of disadvantages to operating in Canada? If the latter, what are the major problems?
- Are interprovincial barriers to trade harming investment decisions? What are the priority issues concerning the economic union that bear upon quality investment in Canada?
- What partnerships are needed between the public and private sectors to ensure that the quality of investment in Canada improves?
- What broad changes in government policies are needed to ensure that quality investments are generated in Canada?
- Are there firm-level illustrations where quality investments have been frustrated because of government regulations or other policies?

THEME 3: SEEKING FOREIGN INVESTMENT

Points for Discussion

- Has the competition for international investment greatly intensified? What has been the experience of Canadian firms in attracting international investors?
- Are the regulatory provisions concerning foreign acquisitions of Canadian firms appropriate? Are there sectoral problems? Should the investment provisions of the Canada-U.S. FTA be extended to other countries?
- Is there concern about a possible international capital crunch, given the changing circumstances of traditional supplier countries (e.g., Japan and Germany) and the demands of some countries (e.g., Eastern Europe)?
- Are there investment provisions that Canadian firms would like to see reflected in international trade agreements such as the NAFTA?
- Are we conveying the right messages to the international community about investing in Canada? Should we be doing more to elevate international awareness of investment opportunities in Canada?
- What can be done to improve access to international investment enjoyed by Canadian businesses?
- Are there ways of leveraging private-sector expertise to improve the investment information network?
- What can and should be done to better co-ordinate the investment promotion activities of the three levels of government?
- How can Canada improve its efforts to attract global businesses to make new investments here?
- What features are international firms seeking in investment sites?
- Where are our main competitors for new investment?
- What strengths can we build on to make ourselves more attractive to international investors?
- What existing advantages should we promote?
- What impediments to international investment must we remove?

THEME 4: CANADIAN FIRMS AND GLOBAL MARKETS

Points for Discussion

- What is meant by globalization and what are the key implications for Canadian-based firms?
- Are Canadian firms sufficiently aware of the need to think and act “globally”?
- Canadian firms are typically very small compared to foreign competitors. Is this posing a major problem in developing global markets?
- Joint ventures and other forms of strategic alliances are increasingly-important means of “going global”. What has been the experience of Canadian firms with such ventures?
- Are small- and medium-sized Canadian firms able to formulate strategic alliances with foreign partners or are cost factors limiting the desired degree of networking?
- Are formal regulations or informal factors (e.g., linkages between the banking and commercial sectors) in other countries impeding the efforts of Canadian firms to expand their operations abroad? Are there examples of foreign regulations forcing Canadian investment abroad to penetrate the market?
- Is the trade/investment relationship being properly developed? Should the government become more active in facilitating the linkages?
- International investment (both outward and inward) and trade contribute vitally to the transfer of technology. Are Canadian firms sufficiently connected to this technology transfer network? Are there investment-related activities that the government should undertake to strengthen Canadian participation in this network?
- Are Canadian-based subsidiaries of foreign multinationals at a disadvantage in responding to the requirements of global restructuring? Are emerging management structures compatible with Canadian entrepreneurship? Can such subsidiaries be expected to continue to make strong additions to the capital stock?
- Are changes in government policy needed to facilitate global business structures? Are Canada's investment and competition policies sufficiently integrated?
- Should the government be involved in assisting Canadian firms to become global? If so, how?

NOTES