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The Asia Pacific Region: Canadian opportunities and challenges

Between 60 and 80 percent of Canada's international commerce is with the United States. Economists generally concur that Canada could benefit by developing stronger investment and trade links with non-US countries.

They agree too that the greatest opportunities for this diversification are in the Asia Pacific region. By the year 2,000, that area will account for about 25 percent of world GDP — compared with about 12 percent in 1965. That trend is reflected to a degree in the Canadian experience. Canada's commercial relations with the Asian economies have increased considerably, although from a small base, and the Asia Pacific region has already displaced the European Union as Canada's second largest trading partner. But these macro-trends conceal some troubling shortfalls — in some countries, Canada is scratching the surface of potential. In others we have actually been losing market shares to other countries.

To examine Asia Pacific opportunities and challenges from a Canadian perspective, Industry Canada organized a two-day conference in Vancouver last December.

At the sessions, experts presented 14 research papers on a wide spectrum of economic growth issues ranging from trade and investment, to environment, tourism and immigration. Other papers looked at the implications of policy developments in the region for Canada's commercial and innovation policies.

Alan Nymark, Assistant Deputy Minister of Industry and Science Policy, Industry Canada, opened the conference by emphasizing the importance of trade for Canada, and in particular trade with the Asia Pacific region. Exports and imports of goods and services, he pointed out, currently account for two-thirds of Canada's GDP. Recent research strongly suggests that trade, foreign direct investment and technology complement each other. This means, Mr. Nymark argued, that governments' efforts to liberalize trade and investment flows would be likely to trigger a cycle of increased economic integration among countries. This would make for a more efficient allocation of productive resources and contribute to growth in productivity and real incomes in Canada and elsewhere.

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Profile of growth

Among the main findings of the conference:

- The performance of Asian economies over the 1980s supports the theory that the more open an economy, the faster it grows. However it is too early to assess how social capital and cultural attitudes affect economic growth.
- The Asia Pacific region's industrial policies may have altered the industrial composition of Canada's trade with these countries. Even after accounting for Canada's natural resources endowment, large levels of exports in resources and resource-based products with the Asian countries remain.
- Although the chances of attracting new Asian investment to the Canadian provinces in general is very low, the odds could be improved, particularly in Ontario, through investment incentives.
- If China, India and Indonesia achieve the current average level of the middle-income countries in the Asia Pacific region, very large increases in aggregate consumption of resources will occur, and Canada will be able to benefit from this growth.
- Canada is well positioned to benefit from Asia Pacific export opportunities in the service sector, especially in certain types of business services and education services.
- An increase in tourist arrivals from the Asia Pacific region is bound to be one of the most important sources of Canadian exports to the region, if these economies continue to grow at the pace they have in the recent past.
- The reasons that motivate people from the Asia Pacific region to immigrate to Canada vary widely from country to country. The research indicates a strong positive correlation between the Asia Pacific immigrants and trade (both exports or imports) between Canada and the Asian countries.
- There is clear evidence that environmental quality in many East Asian countries is worsening, but it would be a mistake to rush to judgement about the dynamics. Economic growth in developing countries tends to increase many (but not all) types of pollution. In many of these countries, rising real incomes would cause many indicators to improve.

SME performance and problems

- The international participation rate of Canadian small- and medium-sized enterprises (SMEs) in the Asia Pacific region is far lower than that of large and very large firms: Canadian SMEs are quite competitive vis-à-vis American firms and large Canadian firms.
- Outward-oriented Canadian SMEs perform better than domestically-oriented SMEs.
- SMEs seeking to do business in the region face obstacles of many kinds. They include:
  - formal and informal barriers to trade and investment;
  - limited availability of capital at a reasonable cost;
  - lack of access to up-to-date and comprehensive market intelligence; and,
  - lack of international experience managerial depth and dynamism.
- In tackling these issues, Canadian policy-makers may find Australia's experience instructive. Reduced trade and investment barriers, economic deregulation and proximity to the Asian markets have played an important role in improving Australia's trade performance in the Asia Pacific region. By contrast, specific trade initiatives have had little or no effect.

Conclusion

In summary, the authors agree that Canada could benefit substantially from closer links with the Asia Pacific region. The gains would be realized in trade and investment flows, tourism, human resource development, innovation, technology diffusion, specialization, productivity and resource utilization.

To realize this potential, Canadian firms need to move aggressively into the region. Governments can help in at least two ways:

- by liberalizing trade and investment flows between Canada and the Asia Pacific economies; and,

- by providing comprehensive, up-to-date market intelligence on the Asian economies.

Other ways in which government could promote Canadian SME participation in the Asia Pacific markets include:
- measures to improve access to export and other financing;
- helping to match Asian firms with Canadian partners for joint ventures or strategic alliances; and,
- assistance in adopting and diffusing new products and technologies.

On the topic of Science and Technology (S&T), the authors believe Canada should also aim at increasing the number of cooperative research projects between Canadian and Asian universities and research institutions.

Before all this can happen, the authors emphasize, governments must clear away various barriers to scientific collaboration. The obstacles include inadequate protection of intellectual property rights, existing restrictions on foreign investment, and access to the Asian markets.

Surveying APEC's role, the authors opine that the organization's future depends on the ability of its member countries to agree that they all do in fact, want liberalization and increased cooperation. Member countries must abandon the obsolete concept that trade is the one and only route to international exchange and globalization. The reality is that trade, investment and technology converge in a nexus that constitutes the core of international interdependencies among economies.

Industry Canada will publish revised documents from the conference in a major research volume scheduled for release in the summer of 1996. Professor Richard Harris, of Simon Fraser University, is the General Editor.

Foreign direct investment and APEC economic integration

Industry Canada will shortly release a study of foreign direct investment linkages in the Asia Pacific Economic Cooperation (APEC) group of nations. Authored by Ash Ahmad, Someshwar Rao and Colleen Barnes, the paper suggests that trade with the member nations of APEC will play a major part in promoting jobs and growth in Canada. And it concludes that foreign direct investment (FDI) linkages with Asian countries are crucial to building that trade relationship.

Main Findings

- Except for the Philippines, all Asian APEC member economies have enjoyed very rapid growth rates in output and real income since World War II. In so doing, they have gained significant ground over the industrialized economies.
- Despite these gains, productivity and real income levels in most Asian countries (the exceptions are Japan, Hong Kong and Singapore) are still well below the levels in the non-Asian APEC economies.
- Whence the Asian growth miracle? The study points to multiple driving forces. They include high savings and investment rates, rapid export growth, well educated and skilled work forces, low labour costs, favourable exchange rates, well developed infrastructure, and outward looking and market oriented economic policies.
- These advantages will continue to make themselves felt. With a population of over two billion, the APEC market, has tremendous growth potential and, because of very large productivity and technology gaps, APEC's Asian member countries should continue to lead the world in growth. But there is a proviso attached: they must stay the course on appropriate economic policies and must strengthen their trade and investment linkages within and outside the organization.

Other highlights

- The study finds that, except for Japan, Asian APEC member economies are generally much more open to trade than their non-Asian fellow members.
- During the second half of the 1980s. The share of FDI flows in domestic capital formation more than doubled in most of the APEC member economies.
- Shares of inward and outward direct investment stocks in GDP also increased substantially in most APEC member economies during the 1980s.
- Overall, manufacturing and tertiary sectors account for much of the inward and outward FDI stocks in APEC member economies. The exceptions are the countries of the Association of Southeast Asian Nations group (ASEAN). The share of the tertiary sector in APEC inward FDI stocks increased considerably in the 1980s.
- In 1992, the FDI inflows of the People's Republic of China (PRC) jumped to US$11.2 billion, from only US$4.4 billion one year earlier. This made the PRC the second largest FDI recipient in the world (after the US) and the largest FDI host country in the developing world.

APEC Economic Integration: Trade Linkages

- Between 1980 and 1992, the share of intra-APEC trade as a proportion of total APEC trade increased from about 58 percent in 1980 to about 70 percent in 1992.
- Trade linkages between APEC and the European Union remained virtually flat in the 1980s while trade with the rest of the world declined dramatically.

APEC Economic Integration: Investment Linkages

- In 1992, intra-APEC inward FDI stock accounted for about 50 percent of the total APEC FDI stock. Roughly equal shares came from Asian and non-Asian APEC members.
- In both the ASEAN and the newly industrializing economies (NIEs), the single most important source of FDI was Asian APEC. In particular, Japan and the NIEs are the principal source countries. Non-Asian APEC member economies are more important investors in the NIEs than in the ASEAN countries.
- The shares of Japan and the EU in the total inward FDI stock of the non-Asian APEC region increased considerably in the 1980s. On the other hand, the importance of the US as a source country declined markedly.
- In 1992, almost half of the APEC outward direct investment stock went to other APEC member economies, 30 percent went to the EU and 20 percent went to other countries around the globe.

Trade and Investment Linkages

The authors find that the following factors appear to have played a major role in shaping the trade and investment patterns of APEC member economies in the 1980s:

- faster economic growth in APEC member economies, especially in the Asian APEC region;
- very low labour costs in the Asian countries (except Japan);
- geographic proximity and rapid changes in the comparative advantage position of APEC member economies;
- cultural affinity of economies in the three APEC sub-groups: namely Asian APEC, North America and the Australia/New Zealand (ANZ) duo;
- regional free trade agreements (FTA, NAFTA, ASEAN and the ANZ); and,
- Focusing on two benchmark years, 1980 and 1992, the study detected a strong, positive correlation between trade and investment patterns in the APEC economies. This finding supports the view that trade and FDI are complements rather than substitutes.

Investment is leading the integration of APEC economies with trade linkages springing up in its wake. For policy makers, this suggests that efforts to facilitate investment and trade should continue. For, as these efforts bear fruit, pressures will inevitably build up to harmonize policies among APEC countries in areas such as corporate law, intellectual property, and competition policy.

Corporate governance structure, corporate decision-making and firm performance in North America: A trans-border comparison

In Canada and other industrialized nations, there is growing recognition that corporate governance issues affect the economic performance of nations and firms. This insight has sparked lively discussion of corporate governance in both public and private sector forums. In Canada, for example, a Toronto Stock Exchange report recently examined the role of the board of directors in corporate governance and decision-making, and recommended measures to improve structure and practices in this field.

Despite the current surge of interest, research and discussion of the policy aspects of corporate governance has been narrowly focused on the role of the board of directors in upholding shareholders' interests and in minimizing agency costs. Another problem is that much earlier Canadian research on corporate governance has been primarily qualitative and lacking a base of rigorous empirical analysis.

In Industry Canada's latest Working Paper, staff members Someshwar Rao and Clifton Lee-Sing, widen the canvas. Their study provides an in-depth, firm-specific empirical analysis of the interrelationships between corporate governance structure, corporate decision-making, and corporate performance in Canada and the United States. As the foundation for their analysis, the authors assembled a micro database on 3,000 U.S. and 766 Canadian firms.

They start with a look at the structure of corporate ownership and the size and the composition of the Board in the two countries. Next, using statistical techniques, the authors analyze the relationships between governance structure and decision and performance variables in the Canadian and American companies. The decision variables include the debt to asset ratio, the capital-labour ratio, the R&D/sales ratio and the ratio of foreign assets to total assets. Performance variables include the growth of sales and assets, capital and labour productivity (levels and growth) and profitability.

Sample characteristics

- Sales and assets of the U.S. firms sampled in the survey totalled US$3.6 trillion and US$7 trillion respectively, compared with Canadian totals of US$397 billion and US$1.2 trillion.
- The average sales and assets of Canadian firms are, respectively, US$0.54 billion and US$1.6 billion. By comparison, U.S. firms have average sales and assets of US$1.2 billion and US$2.3 billion respectively. The authors note that these differences stem from the presence of a disproportionately large number of small firms in the Canadian sample, compared with the U.S. sample.
- Compared with their U.S. counterparts, the firms in the Canadian sample included a higher proportion of companies in the finance, insurance and real estate; mining; and resource-intensive manufacturing industries. On the other hand, the U.S. sample had a higher proportion of technology-intensive manufacturing; and service industries. The authors note that industrial distribution of firms in the two samples accurately reflects the comparative advantage position of the two countries.

A central finding of the Rao and Lee-Sing study is that the governance structures of Canadian companies differ considerably from those of their American counterparts. This is particularly true with respect to the nature and concentration of corporate ownership, institutional ownership, inside ownership, and the composition of the board of directors.

In Canada, the majority (55 percent on average) of the firms in all size classes and in most industry groups are legally controlled. In sharp contrast, less than 25 percent of the U.S. companies are legally controlled. Differences in the ownership structure of American and Canadian companies are more pronounced for firms with sales over US$1 billion.

The inside track

On average, insiders (directors or officers of the firm) hold over 20 percent of company shares in Canada, compared with less than 10 percent in the United States. On the other hand, institutional ownership is considerably higher in the United States than in Canada. Institutional investors such as banks and other financial institutions, pension funds, mutual funds and other companies, on average, own about 53 percent of the voting shares of the American companies, compared to only 38 percent in Canada.

The study finds that, in both countries, the larger the firm in terms of total sales, the greater the number of directors and other senior officers. On average, inside directors — directors who are also officers of the firm — account for 20 percent of all directors in the Canadian companies compared with 22 percent in the United States. Foreign (non resident) directors, on average, account for 15 percent of all directors in Canada. Figures on non-resident directors of American companies were not available.

In both Canada and the U.S., the CEO sits on the board of directors in most (close to 90 percent) of the companies. But, in only 34.5 percent of Canadian firms does the CEO also act as the chairperson of the board. In the United States over 60 percent of CEO/chairpersons wear the two hats.

Rao and Lee-Sing find a fair degree of correlation, in both samples between the corporate governance structure and decision and performance variables, although they caution that the results are less robust in the case of Canadian firms. Other factors that significantly influence decision and performance variables in both countries are company size and industry characteristics.

Effects on competitiveness

How do these characteristics influence the performance of U.S. and Canadian firms? The study offers these findings.

- Among U.S. firms, institutional ownership, the inside ownership ratio and the inside director ratio significantly influence profitability, productivity and growth performance.
- The economic performance of widely held and effectively controlled American firms is significantly better than the performance of legally controlled firms.
- In Canada, on the other hand, the inside director ratio has a positive impact on corporate performance.
- The growth performance of Canadian firms, especially asset growth, is positively related to the foreign director ratio.
- The size of the board, and whether the CEO is the chairperson of the board or not, do not seem to matter much for corporate performance in the two countries.
- In both countries, the performance of firms with sales under US$100 million is significantly weaker than firms with sales over US$2 billion.

To sum up, the findings of the Rao and Lee-Sing study indicate that, in the United States corporate ownership structure makes a difference to corporate economic performance and decision-making. In Canada, however, these variables do not seem to matter much. Large differences in the ownership structure between the two countries could explain the differences in statistical results.

Allowing for the differences

These findings imply a need for different policy approaches to corporate governance in the two countries.

In the United States, government initiatives aimed at improving institutional ownership and activism, increasing the inside ownership and reducing the ownership concentration would improve corporate performance.

In Canada, on the other hand, government and corporate efforts should concentrate on improving corporate governance practices such as reducing executive entrenchment and differential voting rights, protecting and strengthening minority shareholder interests, enforcing director liability and enhancing disclosure requirements. In addition, say Rao and Lee-Sing, their research provides no support for government intervention with regard to the size and the composition of the board in both Canada and the United States.

Red tape, regulation and R&D incentives: Measuring the costs

When they designed Canada's Scientific Research & Experimental Development (SR&ED) Tax Credit Program, policy makers built in rigorous compliance standards in terms of reporting and other procedures. The objective was sound enough: to ensure that credits under the program would support only those kinds of activities that the government wanted to encourage. But some critics have suggested that stiff standards can be self-defeating. Specifically, they can inflate compliance costs to the point of discouraging firms that might launch R&D projects from making use of the program.

Are compliance costs truly counter-productive in this sense?

Yes and no, say Alan Macnaughton, Sally Gunz and Karen Wensley in an Industry Canada Occasional Paper titled, *Measuring the Compliance Cost of Tax Expenditures*. The authors find that despite complaints about burdensome record-keeping in the SR&ED program, average annual compliance costs for the firms that they sampled are quite low — 0.7 percent of the credits claimed. They would be even lower, they say, if they added the value of provincial incentives, which require relatively little additional compliance costs. From this they conclude that the SR&ED program is cost-efficient in delivering support to R&D programs in Canada.

But, the authors caution, when the averages are broken down by size, the arithmetic changes. For claims under $200,000 the compliance cost is much higher, reaching 15 percent or more. In studying this phenomenon, Mcnaughton, Gunz and Wensley examine various factors which might affect compliance costs, including size of firms and whether the credits were refundable. Their finding: the most significant factor is the size of the claim rather than company size — indeed even large firms which make small claims can face relatively high compliance costs.

Looking at start-up and audit costs, the authors find that complaints about the burden notwithstanding, they tend to be even lower than annual compliance costs.

These findings stood up under cross-checking. In addition to gathering objective cost information, the authors asked claimants in their sample how they felt about annual compliance costs. Seventy-three percent rated compliance costs levels as acceptable.

Are we managing to succeed?

"Are Canadian management skills up to the challenge of competing successfully in the global knowledge-based economy?"

The question is tackled in *Management Skills Development in Canada*, a new Industry Canada Occasional Paper, prepared by Keith Newton as analytical background for one of the department's new strategic information services — known as CONTACT! - The Management Information Network.

In his paper (Number 13 in the Occasional Paper series) Newton examines empirical evidence on the following issues: the quality of management in Canada, the demand for and supply of management skills development products and services; and the quality and availability of information in the management skills market, and the policy implications of all these matters.

Newton notes that while technological advances and smart ideas are critical to success, today's truly innovative manager is required to be more than a pioneer in the introduction of hardware and software. He or she must also be avant garde in the creation of an organizational climate, friendly to innovation, within which the new tools can be put to good use and flourish.

Furthermore, says Newton, while success demands, as always, fastidious attention to a fickle market and exemplary finance and marketing, it also requires a new breadth of vision. Specifically, it demands what he calls "a global mind set" that transcends parochial and even national boundaries to seek new markets, new knowledge and new ideas. Furthermore, today's managers must place special emphasis on the development of "intangible assets," in particular on the nurturing of intellectual capital — the ultimate source of competitive edge in the new economy.

The paper cites numerous surveys which make the case that, in relation to these new challenges, the skills of Canadian managers may be found wanting. The deficiencies exist across a wide spectrum of skill levels and types, right down to basic competences and are nowhere more intractable than in small- and medium-sized firms. For example, a recent Industry Canada/Statistics Canada study of growing small firms identified management skills as the most important factor contributing to growth. Yet survey results showed that a majority of respondents rated Canadian small business management capabilities "poor" or "very poor".

These shortfalls, the author suggests, may be affecting our international performance: while Canada ranked twelfth overall in the 1995 World Competitiveness Report, her standing in the management category (sixteenth) is not up to par.

The programs are there

In its survey of the supply side of the market, Newton's paper clearly shows that there is no shortage of management development programs and services available to Canadian firms. Why then, are they not taking advantage of them?

The reasons may lie in history and culture. Newton cites several surveys which support the contention that in Canada management development is simply not thought of as an integral part of doing business. These findings are consistent with the popular theory that because of a rich inflow of immigrants' skills, Canada has not developed a strong "training culture". A 1991 survey of 1,000 Canadian firms found that only a little over one third had even formulated policies on management training and development — and only 12 percent of managers at all levels had participated in such programs. (In contrast, a 1989 survey of US firms showed 84 percent offering management skills development.)

Nor does the situation offer grounds for optimism about the development of the "global mind set", alluded to above. A report from Canada's Corporate Higher Education Forum concludes that one of the major obstacles to further progress in "internationalizing" Canadian management is neither the business schools nor governments, but business itself: "Canadian executives, for whatever reason, are uninterested in formal international management training".

Pyramids and pinnacles

Moving in for a closer look at the market for management skills, Newton starts with the demand side. He proposes the model of a pyramid resting on a broad platform of basic skills such as literacy and numeracy and core competencies like communications. This foundation supports more specific competencies such as job-specific technical skills. At the top of the pyramid are what the author calls "pinnacle skills." These are attributes of the kind that are critical for success but that are frequently innate and extremely difficult to acquire: vision, creativity, flair and charisma.

One surprising finding from the demand side is that many individuals and businesses with management deficiency problems have no idea that they have them. In some cases managers don't know what their needs are. Businesses typically do not identify management shortcomings as an area requiring improvement through training.

Findings derived from programs of the former Department of Industry, Science and Technology show that clients often mis-diagnosed their problems as being technology-related when, in fact, they derived from deficiencies in such areas as work organization and training. Such findings point, of course, to the need for efficient, friendly, and accessible diagnostic tools — one of the major policy conclusions of the paper.

On the supply side, the paper describes the vast array of available management development products and services. However it underlines a major conclusion of Industry Canada's sector campaign on commercial education and training services that the industry lacks coordination and "identity".

The good news

One of the brighter spots in the supply discussion is the observation that business schools are responding to the realities of the new environment with new pragmatism. More institutions are offering courses that meet the real-world management needs of small firms — for instance in entrepreneurship, training for women in management, and on-going business in foreign countries.

The paper also points to distinct signs that Canada's university sector is beginning to forge links to business and respond to its needs.

With luck, says the author, we may have changed course away from the destination described by Harold Leavitt of Stanford, who warned that North American MBA programs were systemically transforming "well-proportioned young men and women ..... into critters with lop-sided brains, icy hearts and shrunken souls".

Having said that, the paper's main message is nevertheless cautionary. This is a market beset by problems of imperfect information about what's available in the way of management development programs. The sector's products and services are not well-known among Canadian businesses. A study by the Canadian Labour Market and Productivity Centre concludes that the lack of a simple and affordable source of information on available training programs in Canada is the key factor impeding business access to skill development.

This information gap is covered prominently in a policy discussion in the last part of the paper. Here the author argues that government could play a useful role in providing and disseminating strategic information on management development products, services, policies, and practices. A generic model for a management information directory is discussed, as are specific plans for an Industry Canada initiative which has now come to fruition in the form of the Management Information Network (MIN).

The paper concludes with suggestions for further work. The author sees a need for research to constantly feed and enrich the benchmarking and best-practices dimension of the MIN. Beyond that we should redouble efforts to foster dialogue and cooperation between industry and academia. One area in which such collaboration is particularly vital is in giving Canadian firms better access to the "research" end of the management science spectrum. This would help businesses to understand, and apply leading-edge management information, strategies, and techniques.

Richard Caves on the growth and decline of multinational enterprises: From equilibrium models to turnover processes

Recent developments in the analysis of change and turnover in business populations could be useful additions to the tool kit of policy makers and their advisors in the analysis of multinational enterprises (MNEs). This was one of the main points made in a recent lecture by the renowned American economist Richard Caves.

In a November 1995 address to Industry Canada staff in the *Distinguished Speakers in Economics Series*, Caves challenged his audience to go beyond the traditional static analysis approaches to MNEs and to think of them as moving through a process of systematic change.

Leading his audience through the literature on turnover processes, Caves argues that firms making up an industry are constantly being reshaped by churning and changes in fortune. They undergo systematic processes of birth, expansion, contraction and demise. The resulting changes in efficiencies will have a straightforward impact on revenue and cost position. Even large firms are not insulated from these effects, although, because of their size, the impact may not be immediately apparent.

In his lecture, Caves extracted several broadly-based observations from the literature, including the following:

- markets with high gross rates of entry exhibit high rates of exit;
- accelerated rates of exit in the recent past speeds the current rate of entry;
- the larger the size of the entrant the better the chance to survive; and,
- concentrated industries or industries using complex bundles of proprietary assets experience more changes in control while unconcentrated industries or industries with simpler firms endure more plant openings and closures.

Sifting through research on turnover processes and their applicability to MNEs, Caves pulled together three salient conclusions:

- MNEs, too, have learning curves where investment in foreign markets is concerned — over time they get better at it; hazards diminish and failure rates fall as the number of expansions increases;
- MNEs tend to "optimize" their learning by expanding through a series of stepping-stone host countries. The usual progression is to start with the nearest and/or most familiar, to use the experience gained there in the next expansion, and to repeat the process in subsequent moves; and,
- the risks associated with foreign direct investment are more independent of the risks in otherwise comparable domestic investment. This is because MNEs in foreign markets typically sell off the corpse of their defunct subsidiary to a domestic firm operating in the foreign market.

Reviewing the public policy implications of his findings, Caves underscores the intrinsic uncertainty associated with foreign investment. In light of turnover process and random realizations, disinvestment and withdrawal by MNEs might simply be responses to bad market outcomes. "If one is trying to lure foreign investment", he concludes, "one should be prepared to offer some subsidies or tax relief money down what will turn out to be, in some instances, rat holes."

Beyond Miami '94. What a difference a year makes

Jeffrey Schott, Senior Fellow at the Institute for International Economics in Washington, D.C. was a recent guest speaker in Industry Canada's *Distinguished Speakers in Economics Series*. In his address, titled, *Prospects for Western Hemispheric Free Trade*, Schott reviewed progress since the Miami Summit of the Americas in December 1994. That was the meeting at which First Ministers committed their countries to negotiating a comprehensive free trade agreement (FTAA) by the year 2005.

The theme of Schott's lecture was "what a difference a year makes". Twelve months after Miami, conflicting pressures were being exerted both to complete and to impede an FTAA.

Several roadblocks have emerged. First, the U.S. Senate blocked "fast track" approval for U.S. trade negotiations. This stalled Chilean accession to NAFTA and obstructed American progress in extending NAFTA-like preferences to twenty-four countries in the Caribbean Basin Initiative.

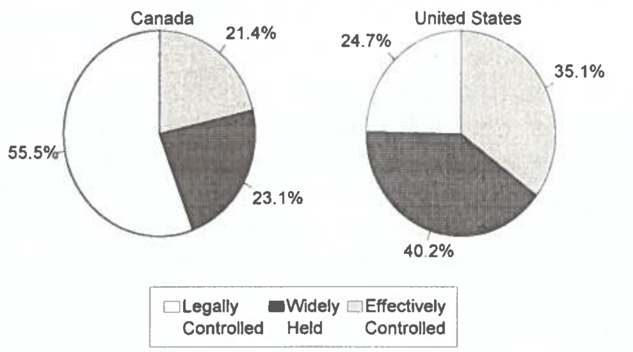
Next, the Mexican peso crisis and subsequent debate on the rescue package raised questions over the sustainability of economic reforms in Latin America, the ability of developing countries to adjust to open competition, and the value of free trade pacts with low-wage competitors. Finally, political developments such as border conflicts in South America and the U.S.-Columbia drug conflict cast doubts on whether the requisite harmony exists to work together towards an FTAA.

However, not all the news is bad, says Schott. Economic reforms continue to advance throughout the region. Key tax reforms are lowering reliance on trade taxes and shifting towards consumption-based systems. Several nations are privatizing state-owned enterprises, particularly in the energy and telecommunications sectors. Policies and trade practices are converging as a result of participation in the Uruguay Round. Finally, at official levels, seven working groups were established at the June 1995 Ministerials in Denver with four more to be established at the March 1996 Ministerials. They will work to clear existing obstacles on the path to integration to prevent new ones from emerging, and to deal with issues not covered by existing sub-regional or multilateral agreements.

Overall, Schott feels that arrival at an FTAA will most likely be accomplished through an evolution of existing sub-regional integration efforts accompanied by a "big bang" approach in which all participants sit down and negotiate parts of the deal. That said, he feels that NAFTA-type models and norms will dominate any hemispheric integration package.

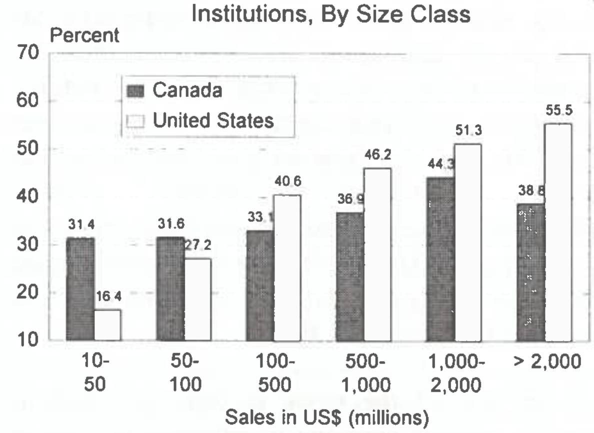
Despite the current political impasse in the U.S., Schott feels that it is in the U.S. national interest to continue pursuing an export-oriented approach in order to relieve U.S. protectionist pressures. He argues too, that U.S. participation is a necessary, but not sufficient condition for western hemispheric integration. For hemispheric integration to succeed, the major countries of Latin America and the Caribbean must continue to develop and augment their own economic reform programs.

Concentration of Ownership in Canada and United States



Source: Industry Canada compilations using data from Compact Disclosure Canada, Compact Disclosure Worldscope and Compact Disclosure SEC.

Percentage of Voting Shares Held By Institutions, By Size Class



Source: Industry Canada compilations using data from Compact Disclosure Canada, Compact Disclosure Worldscope and Compact Disclosure SEC.

CORPORATE OWNERSHIP IN NORTH AMERICA

- The level of concentration of corporate ownership or corporate control is measured by the number of voting shares held by one or a small group of shareholders. That is, the *defacto* control of the voting shares.

- There are three categories of ownership concentration: *widely held control* - in which companies have no shareholder or group of related shareholders that own, directly or indirectly, more than 20 percent of the voting shares; *effective control* - in which companies have one shareholder or a small group of shareholders owning, directly or indirectly, 20 to 49.9 percent of the voting shares; and *legal control* - in which one or a small group of shareholders owns, directly or indirectly, more than 50 percent of the voting shares of a company.

- In the Canadian sample, almost 80 percent of the firms are either legally controlled or effectively controlled compared to only 60 percent in the United States.

- Recent research suggests that institutional owners such as financial institutions, pension funds, mutual funds and other corporations play an important role in improving the corporate decision-making process and corporate performance.

- Institutional ownership in the Canadian sample increases systematically with firm size in all the six size classes, except for the largest size class. However, this relationship is not as prominent as in the American sample.

- The institutional ownership varies considerably across the major Canadian industries, from a low of about 10 percent in agriculture, forestry and fishing to a high of almost 70 percent in technology-intensive manufacturing industries, with an average of about 38 percent. In the United States, on the other hand, it varies in a narrow range of 45 to 56 percent, averaging 53 percent.

PUBLICATIONS

RECENT RELEASES

Industry Canada Working Paper Series

No. 6 - *Measuring the Compliance Cost of Tax Expenditures: The Case of Research and Development Incentives*, Sally Gunz, Alan Macnaughton, and Karen Wensley.

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