INVESTING IN CANADA

A NEWSLETTER ON CANADA'S INVESTMENT CLIMATE

INVESTMENT CANADA INVESTISSEMENT CANADA

Vol. 1, No. 1 – June 1987

Welcome to the first issue of ***Investing in Canada****, a new quarterly newsletter with a focus on investment issues. Published by Investment Canada, its purpose is to report on trends, events, and policies of interest to those seeking Canadian investment opportunities.*

Investing in Canada contains features on successful companies in Canada, interviews with investment experts, evaluations of the international investment climate, and reports on investment development initiatives. It also includes analyses of the Canadian investment environment and articles detailing vital indicators such as flows of investment into and out of the country.

Investing in Canada reflects Investment Canada's mandate to inform the public about the importance of investment in Canada's economic future.

Paul Labbé
President

Record Foreign Investment in Canada in 1986

by Ted Zahavich, Policy Analyst, Investment Canada

The inflow of foreign direct investment in Canada and foreign portfolio investment in Canadian stocks and bonds rose to record levels in 1986.

Foreign Direct Investment

Foreign direct investment — investments made by foreigners in Canadian businesses — increased dramatically to $6.8 billion last year. This was double the 1985 level and up almost 42 percent from the previous record of $4.8 billion set in 1981.

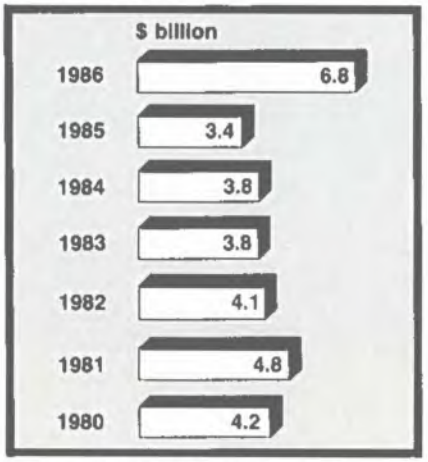
About $3 billion or 44 percent of the $6.8 billion inflow of direct investment in Canada came from the United States. This is lower than the 50 percent that the United States averaged in the decade from 1976 to 1985. However, there was a substantial increase in direct investment from countries other than the United States. In fact, the inflow from Europe, particularly from the United Kingdom, was substantial.

Two takeovers of Canadian-controlled companies by British firms made up the bulk of the inflow from the U.K. These were the acquisition of 51 percent of Mitel by British Telecom, and of 51 percent of Hiram-Walker by Allied-Lyons.

Japanese and U.S. companies were prominent among foreign investors. Three Japanese automobile companies — Honda, Toyota and Suzuki — are building plants in Ontario. Hitachi is building a plant in Saskatchewan to produce low-pressure casings for power turbines. Two American high-tech companies, LSI Logic and BioTechnica, have built facilities in Alberta.

A Norwegian and a Chinese concern also made significant direct investments last year. Norsk Hydro is building a $400 million magnesium extraction plant in Quebec. China International Trust and Investment was one of the joint-venture partners in the purchase of a British Columbia pulp mill owned by Westar Timber.

Gross flows of foreign direct investment in Canada 1980 – 1986



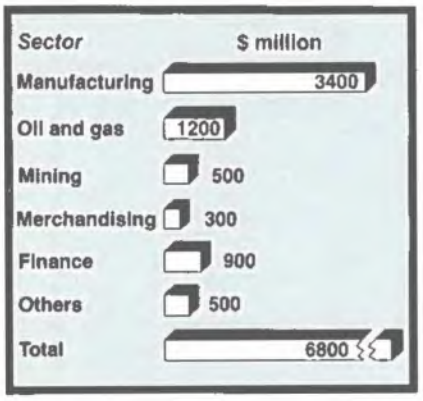
Source: Statistics Canada. Quarterly Estimates of the Canadian Balance of International Payments.

About $4 billion of the $6.8 billion direct investment in 1986 was used for plant expansion and the establishment of new businesses. The other $2.8 billion was used for acquisitions. The high level of direct foreign investment in 1986 was due in large part to an increase in acquisitions: the $2.8 billion for acquisitions represents 40 percent of the total $6.8 billion direct investment. In each of the previous five years, the inflow for acquisitions reached less than 10 percent of the total. Following are the inflow figures for acquisitions since 1981, with the percentages they represent in parentheses.

	$ million
1981	$18 (4%)
1982	$151 (4%)
1983	$336 (9%)
1984	$226 (6%)
1985	$222 (6%)
1986	$2,800 (40%)

By far the largest proportion of the direct investment inflow went to manufacturing, followed, surprisingly, by oil and gas — a sector that was particularly weak in 1986. The following table shows the distribution of the 1986 direct investment inflow by sector.

Foreign Direct Investment in Canada, 1986



Retained Earnings of Foreign Companies

Figures are not yet available on the 1986 increase in retained earnings of foreign companies. Historically, however, retained earnings increases are larger than the direct inflows. Investment Canada estimates that the book value of foreign direct investment in Canada at the end of 1986 was $93 billion, up sharply from the $83.9 billion in 1985, with at least half of the increase resulting from the growth in retained earnings.

Portfolio Investment

Detailed data on portfolio investment inflows and outflows are not available. The net of these two figures is available, however, and it reveals some important trends. In 1986, the net inflow of foreign portfolio investment amounted to $25.0 billion, almost double the $13 billion in 1985 and more than three times the $8.2 billion in 1984.

Of the total of $25 billion, $2 billion was for purchases of Canadian stocks and $23 billion for Canadian bonds. Japanese institutions were major buyers of the bonds. In the second half of 1986, Japanese investors purchased $1 billion worth of Canadian bonds per month. European and Hong Kong investors were also important buyers of Canadian bonds. U.S. investors bought over one-half of the stocks but a relatively small proportion of the bonds. The net inflow from American investors in Canadian stocks was $1.2 billion in 1986, down from $1.6 billion in 1985.

Business Opportunities in Canada '87

Over 3000 people from Canada and abroad attended the "Business Opportunities in Canada '87" conference in Toronto, March 18-20, 1987. The three-day trade and investment conference attracted a wide range of representatives from Canada's private and public sectors, as well as significant foreign delegations from the Middle East, Hong Kong, Taiwan, the People's Republic of China and the Republic of Korea.

"Business Opportunities in Canada" is held annually to explore opportunities for profitable investment in Canada both by Canadians and by people from outside the country.

At this year's conference, distinguished speakers, including federal and provincial government ministers and prominent members of the Canadian and international business communities, shared their views on the global investment environment and the investment outlook in Canada. Canadian companies, provincial governments, and municipalities hosted booths and marketed their investment opportunities on the exchange floor.

"Business Opportunities in Canada '87 " was jointly sponsored by Canadian private industry and the Government of Canada. Investment Canada co-ordinated the conference on behalf of the government.

Next year's conference, "Business Opportunities in Canada '88", is planned for June 1-2, 1988, at Place Bonaventure, Montreal. For further information, contact:
P. McEvoy Hull (613) 995-0759

The Canadian Investment Scene: Performance and Prospects

An Interview with Andrew Kniewasser
President of the Investment Dealers' Association of Canada

In addition to his 15 years as President of the Investment Dealers' Association, Andrew Kniewasser, throughout his career, has held positions that have kept him closely involved with issues of trade and investment. In 1948, he joined the Trade Commissioner Service of the Department of Trade and Commerce and served in a number of posts abroad. From 1963 to 1967, he was General Manager of the Canadian Corporation for the 1967 World Exhibition (EXPO '67). In 1970, Kniewasser became Senior Assistant Deputy Minister (Industry and Trade Development) in the Department of Industry, Trade and Commerce. A recipient of the Order of Canada, he has been President of the Investment Dealers' Association of Canada since 1972.

In the following interview, Kniewasser surveys Canada's investment performance and prospects.

As President of the Investment Dealers' Association of Canada, you probably have as good an overview of investment in Canada as anyone in the country. How healthy is Canada's investment climate?

Kniewasser

There has been a major improvement in the investment scene in Canada, in both direct and portfolio investment. Canadians learn by experience and we've absorbed a good deal over the past decade. Collectively, we've learned how to do a much better job of running our country and managing our economy. Individually, we found out a great deal about how to become much more productive.

You travel extensively abroad and are in regular contact with investment communities in other countries. Have perceptions of Canada's investment climate changed?

Kniewasser

Yes. If you ask that question in London, Frankfurt, Paris, Tokyo, New York, or anywhere else, they will say the Canadian scene is very interesting — more interesting than it used to be. They would certainly agree that the economic management of the country has become more business-like. They would also agree that we have done a very good job of bringing together investments in what I would call political and social stability with direct business investments.

You know, Canada is an excellent place to live and work, an excellent place to invest. We Canadians have often underrated the enormous investments we've made in constitutional or language accommodation. Some of us are beginning to understand that those are some of the best investments we've made. Of all the things I was saying in Europe before Christmas, I think it was that point that captured the greatest attention. The whole world is becoming increasingly interdependent. Canada and West Germany are the two most internationally dependent countries in the world. By the year 2000 this country will be by far the most internationally dependent in the world.

Are you thinking mostly of trade?

Kniewasser

The whole thing — direct physical imports, but also commerce and finance. We are the most internationally dependent now with respect to technology. Canada's future depends on our success in living more internationally. We understand that. All of the experience we have gained in learning to accommodate people who are different within our own country is going to be most useful in our dealings with people from other countries. We have developed habits of openness and consideration for people who have different languages, different backgrounds, or who look different.

> *We will have in real terms double the rate of investment in this country over the next 20 years as over the past 20 years*

That's going to be one of our greatest strengths in the years ahead.

Canada may be open to the world, but is the world becoming more open to Canada? For example — protectionism. Do you see it as a temporary or long-term phenomenon?

Kniewasser

I think it's temporary. As I said just a moment ago, the world is becoming increasingly interdependent. Even those countries that don't consider themselves dependent on the rest of the world will have driven home to them in short order that that is not the case. This is a global community we are now living in, and Canada is right at the top from that point of view.

Do you believe there's still momentum left toward trade liberalization?

Kniewasser

We get temporary setbacks from time to time. There is a direct relationship between economic progress and political or, if you wish, cultural progress. But the more we are successful in having sensible patterns of growth, rates of inflation, and opportunities for people around the world, the more these notions about withdrawing will recede.

If Canada and the United States are successful in negotiating a free trade arrangement, do you think it will have a major impact on the Canadian economy, or do you think it will more or less confirm the trading arrangement we already have?

Kniewasser

The facts are that we almost have free trade with the United States right now. We must always try to improve our access to that market and, more than just negotiate the access, improve the mechanisms for solving trade disputes.

So you would consider the negotiations successful if the United States and Canada were to establish a trade dispute settlement mechanism?

Kniewasser

Yes, I think that's the most important thing. That's the heart of the matter, in my view. In fact, the whole world should be negotiating better access and we should be at the forefront of the process. We must attach equal importance to the GATT negotiations and seek export markets all over the world, not just in the United States.

Canada has traditionally relied heavily on the inflow of foreign capital and technology. Do you think foreign investment will continue to play as important a role in Canada as it has in the past?

Kniewasser

Yes, I see no diminution of our reliance on the rest of the world with respect to investment. The patterns will change. We will have in real terms double the rate of investment in this country over the next 20 years as over the past 20 years. Those investments will be increasingly spread out across the country — to the west, to the east, and to the north, in relative terms.

> *Between now and the year 2000 we will put in place some $2 trillion of new investment – business investment*

The centre of the country will continue to draw more investment capital in absolute terms, but in relative terms less than in the past.

The new kinds of investment will be involved to a greater extent in technology enterprises. Fewer will be one-time project investments. We'll be increasingly in the business of pooling knowledge and of joint venturing. More and more, we will understand the importance of participation and all the things that go with investment, rather than just money. Yes, Canada will continue to rely on foreign investment, but we'll be looking for that investment to do more things for us and we'll be participating in it to a greater extent than in the past.

> *We must encourage more small business enterprises from aroung the world, people with knowledge, people interested in service industries, to take a look at opportunities in Canada*

Other than the United States, where do you see that investment coming from?

Kniewasser

Germany and Japan will be important sources. They have dynamic and mature economies that have generated tremendous surpluses in terms of balance of payments. In Japan, you are talking in the order of $80 billion last year alone. Those monies will be invested in growing economies where the opportunities are greatest.

How well has Canada done in drawing Japanese investment?

Kniewasser

I would think the largest portfolio debt investors in Canada would be the Japanese, by far.

We are also starting to see a lot more direct Japanese investment. The automobile plant investments are very visible and very large, and there will be more of that. Another thing you have to look at is the equities; their price/earnings ratios are now 50 to 60 times. The Japanese are increasingly looking at Canadian equities as a place to put their money. They have

discovered quite recently that there's been a real change in Canadian attitudes toward investment.

We used to think that prosperity was automatic in this country. That was the attitude in the forties, fifties, and sixties. Well, we understand that it isn't automatic anymore. We have to earn our future, we have to be able to attract people, money, ideas, and technology. We have to become more productive. We have a whole new attitude to productivity in this country which we have not had for some time. You see that in the statistics, in the wage settlements we are getting, and in the understanding of entrepreneurs who are applying technology to their business.

What are the your Association's estimates of Canadian capital requirements over the next few years?

Kniewasser

Between now and the year 2000 we will put in place some $2 trillion of new investment — business investment.

About 10 percent will be financed externally. Most of it will be business investment. In the past, something like 75 percent has been business investment. This will rise to 85 percent. So, more of the investment in Canada will come from the private sector — both the Canadian and the foreign private sectors.

Our economy has changed a lot. Resources are still important, but the economy is much more diversified. The growth of the service industries is extraordinary in this country. As we travel across the country, it is incredible to meet people in Saskatoon, Edmonton, Halifax and, elsewhere, who have started a small business of some kind, often with a technological flavour and based on something developed at a local university or community college. When you put that together with an entrepreneur and some intelligent government participation, you have an extraordinary infrastructure of technologically oriented small business right across the country.

The reaffirmation that we are seriously looking for investment in Canada is understood

One of the implications is that our strategy for foreign investment has to be different now than it was in the past. We must encourage more small business enterprises from around the world, people with knowledge, people interested in service industries, to take a look at opportunities in Canada.

You raised the issue of our strategy for investment. Do you think the introduction of the new investment policy in 1985 and the creation of Investment Canada have had an appreciable impact on investor attitudes?

Kniewasser

Yes, I think there was some concern abroad that the Foreign Investment Review Agency was a negative thing, a screening agency, and that the procedures were laborious and time-consuming. Of course, the previous government was in the process of making FIRA less cumbersome and bureaucratic. I think the amendments that have been made, in legislation and in spirit, are in the right direction. The reaffirmation that we are seriously looking for investment in Canada is understood. I move around the world and find less concern now about the procedures we have in place.

So investment policies are no longer seen as a major obstacle?

Kniewasser

That's right. However, I recommended to the government that they go further, that they look to the private sector and, as an experiment, recruit some experienced businessmen and women to go and work in key posts abroad with specific mandates to talk about investment in Canada. The government has appointed investment counsellors and that's proved to be a very useful experiment. There's nothing like one entrepreneur talking to another entrepreneur to make something happen in a specific way.

Part of the government's approach is to encourage investment by Canadians. What's your view on that?

Kniewasser

I see the federal government's role internally to be more one of running a sensible fiscal and tax policy and breaking down barriers to interprovincial trade.

The government has made great improvements in that respect. The dismantling of the National Energy Program was absolutely correct. The determination of our Finance Minister in tackling the deficit, getting our finances under control, is critical to investor confidence.

The incentive that the federal government is putting in the tax system, providing a $500,000 exemption for capital gains, is critical to small business financing. Debt equity ratios in Canada were in the order of 80 percent 10 years ago, when they were 50 percent in the United States. They are now almost the same in both countries. Last year, almost 50 percent of all new corporate financing in Canada was in the form of equity. That means we are getting a higher percentage of permanent capital into the balance sheets of Canadian business than any other country in the world. ♣

Interview conducted by Alan Darisse

Canada's New Investment Ambassadors

Last year, the Government of Canada appointed special investment counsellors from the business community to its key investment development markets: Britain, France, Germany, The Netherlands, Japan, Hong Kong and the U.S.A. The investment counsellors, who were selected for their private sector business development expertise, actively encourage high quality investment in Canada.

In addition to providing potential investors with a range of information required to facilitate the investment decision process, they organize investment development conferences and seminars on Canada, develop and implement promotional strategies and activities, network with corporate decision-makers and identify investment opportunities in Canada and potential Canadian partners. They also assist Canadians who are looking for fresh capital, investment partners, or technology.

Based in External Affairs diplomatic offices, the investment counsellors work closely with the Department of Regional Industrial Expansion and Investment Canada in the development and implementation of the investment development programs within their markets.

Canada's international investment development program is also supported in some 45 other Canadian delegations abroad by Canadian commercial officers with special responsibility for investment. ♣

Following are Canada's special investment advisers:

Michael Howard
Attaché (Investment)
Canadian Embassy
7-3-38 Akasaka, Minato-ku
Tokyo 107
Japan
Tel: (03) 408-2101-8
Tlx: (72) 22218
DCMCAN J22218

Edgar Sarton
Investment Counsellor
Canadian Embassy
Friedrich-Wilhelm-Strasse 18
D-5300 Bonn
Federal Republic of Germany
Tel: (011-49-228) 231061
Tlx: (41) 886421
DOMCA D

Victor Clarke
Special Adviser (Investment)
Canadian High Commission
One Grosvenor Square
London, W1X 0AB
England
Tel: (011-44-1) 629-9492
Tlx: (51) 261592
CDALDN G

Jean-Pierre Mathieu
Counsellor (Investment)
Canadian Embassy
35, avenue Montaigne
75008 Paris
France
Tel: (1) 47.23.01.01
Tlx: (42) 280806
CANAD A 280806F

John Morand
Investment Counsellor
Canadian Consulate General
1251 Avenue of the Americas
New York City, New York
10020-1175
U.S.A.
Tel: (212) 586-2400
Night: 586-2406
Tlx: 00126242
DOMCAN NYK

Lorne Dyke
Investment Adviser
Canadian Consulate General
300 South Grand Avenue
10th Floor
California Plaza
Los Angeles, California
90071
U.S.A.
Tel: (213) 687-7432
Tlx: 00674119
DOMCAN LSA

L. Ten Hoopen
Commercial Officer (Investment)
Canadian Embassy
Sophialaan 7
2514 JP The Hague
The Netherlands
Tel: (70) 614111
Telex: (44) 31270
31270 DMCN NL

Dan Lawrence
Investment Officer
Commission for Canada
P.O. Box 11142,
General Post Office
11th-14th Floors
Tower 1, Exchange Square
8 Connaught Place
Hong Kong
Cable: DOMCA HONG KONG
Tel: 5-8104321
Tlx: (802) 73391
(73391 DOMCA HX)

Small Business Incubators

Investment Canada is publishing a comprehensive study of small business incubators in Canada.

Business incubators are a technique used extensively in Europe and the United States. Their purpose is to stimulate the growth of small businesses by offering them favourable conditions in the critical early stages of development.

Typical incubators offer start-up companies low-cost space in a common facility, shared office services, and on-site professional counselling. In addition, they are usually able to assist their small-business tenants in securing capital at critical stages in their evolution.

Investment Canada's study contains a review of the performance of Canadian incubators, descriptions of these facilities, summary interviews with both administrators and tenants, as well as an analysis of the advantages and difficulties inherent in this form of small business development.

The study will be available on July 1st. To get a copy free of charge, ask for publication RE-87-01 from:

Publication Manager
Investment Canada
P.O. Box 2800
Station "D"
Ottawa, Ont.
K1P 6A7 ♣

Investing in Canada is published quarterly by Investment Canada. Comments and inquiries should be directed to:
The Editor, ***Investing in Canada***, 235 Queen, 5th Floor West, Ottawa, Ontario, K1P 6A5, tel.: (613) 995-9630.