INVESTING IN CANADA

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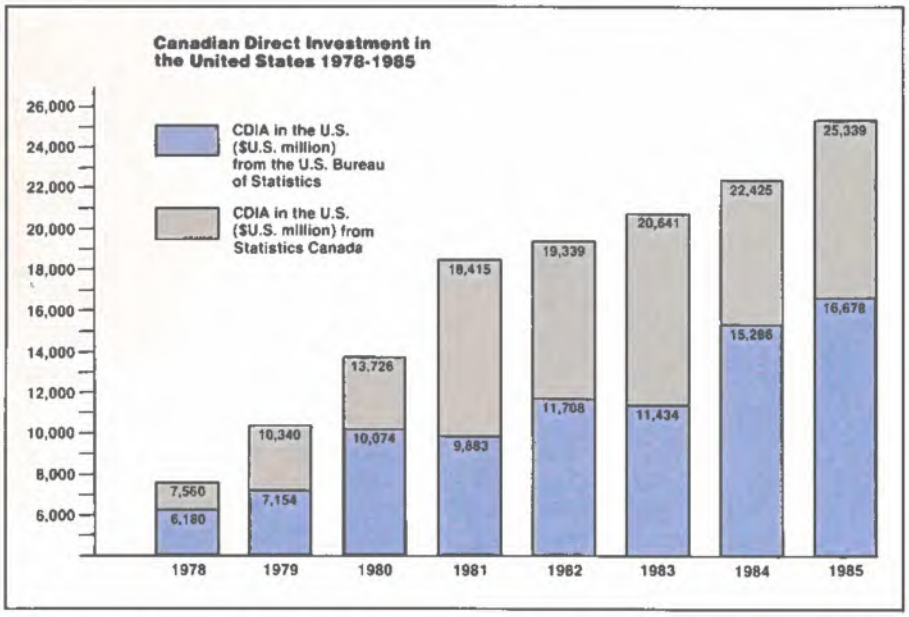
International Investment Statistics: Can They Be Compared?

This article summarizes some of the statistical issues raised in a seminar by C.F.J. Richards, Chief, International Investment Position Section of the International Financial Economics Division of Statistics Canada.

How Do You See It?



This graph presents Canadian direct investment in the United States for the years 1978-1985. The figures shown by the blue bars come from the U.S. Bureau of Statistics; those shown by the grey bars come from Statistics Canada. On the surface, both represent exactly the same statistic — but the difference between the two runs as high as $9.2 billion (1983). Which figures are correct — the American ones, or the Canadian ones?

Lack of international comparability is a major problem in the field of investment statistics. At a time when free trade is under intense discussion, such figures are widely quoted to support the arguments of both sides. Investors, here and abroad, also use such information to help make business decisions.

Statistics Canada has been collecting data on investment position and ownership and control for over six decades. However, even today, only a handful of other countries — including the United States, the United Kingdom, Australia, West Germany, Norway, Switzerland, and the Netherlands — also publish such statistics.

Unfortunately, even when the material is available, there are substantial differences between countries in statistical concepts, and in the ranges of information gathered.

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Beyond Profit - Smoothing the Joins in J.V.'s

In the new global economy, joint ventures are the order of the day. And, of course, economic factors play by far the most important role in setting up international partnerships. As Xiaohong Sun, Manager, China Program for Quadra Logic says, "It's all about money".

However, especially when a joint venture or strategic alliance requires the movement of staff from one country to another, non-monetary factors, like language training, schooling for children, religious and cultural facilities, presence of a community from the home country, and good relations between the two staff groups, can have an effect on whether the partnership succeeds or fails.

"They're extremely important," comments James McAlpine, Executive Vice-president and Chief Financial Officer for Magna International Inc. "The only question is when they come up in the negotiations. Sometimes questions like language and different cultural expectations never come up at all. Other times, they may be a big factor."

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International Investment Statistics:

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The seriousness of the problem can be illustrated with reference to the graph shown.

For figures which appear to represent the same information, the difference in the estimates runs from a 'low' of $1.4 billion to as high as an amazing $9.2 billion.

Most of the discrepancies arise from conceptual differences in the ways the statistics are defined. For one thing, the United States attributes direct investment to the immediate foreign parent. Canada does the same — except when the immediate parent is a holding company through which investments are passed to third countries. In such cases, the holding companies are disregarded.

There are substantial differences between countries in statistical concepts.

Therefore, for example, between 1980 and 1981 there was a jump of about U.S. $5 billion in the difference between the numbers published by the two countries. Of this, a substantial amount was accounted for by corporate reorganizations which resulted in the setting up of intermediary holding companies in tax haven countries. Canada continued to identify the investments as U.S.-based, while the States identified them with the tax haven countries.

Another conceptual difference arises from the fact that short-term investments are included in the United States' statistics and excluded from Canada's.

There are also classification differences between the figures. In the Canadian statistics, direct investments in the United States by Canadian banks are not identified separately; all of the banks' assets abroad and liabilities to foreigners are treated on a net basis in the investment position statistics.

Which valuation is more appropriate — book or market?

Undercoverage applies to both sets of statistics. The Canadian coverage of insurance companies is incomplete. On the other hand, the U.S. numbers are based on sample surveys and occasional annual censuses. In a sample survey it is quite easy to miss out new small and medium-sized companies. In the late seventies and eighties, it was such companies that fuelled the rapid increase in Canadian direct investment abroad (CDIA) in the U.S.

Moving beyond the particular differences between Canadian and U.S. statistics, a general problem of international comparability arises from the question of whether to list the value of investment by its book value or its market value. Canadian direct and portfolio investments, both in Canada and abroad, are recorded according to the books of the investees. Which valuation is more appropriate — book or market?

The opinion that market valuation is more appropriate should come as no surprise. But is it practicable to obtain market values? Some countries, notably Australia, are attempting to get around this problem by determining market values for direct investment to the best extent possible. Unfortunately, the practical result is a valuation that is neither fish nor fowl — neither book value nor true market value; it has the disadvantages of both and the advantages of neither.

A more common practice is that of the United States, in which the direct investment series are collected on a book value basis, and the portfolio series on a market value basis.

But should they be stock-market valuations, or the valuations which would result from liquidations or takeovers?

Unfortunately, the practical result is a valuation that is neither fish nor fowl.

It is not difficult to obtain a stock market valuation of publicly traded securities. Unfortunately, most direct investments are in wholly-owned subsidiaries, and so there are no stock market valuations for them.

Also, not all stock markets exhibit similar Price Earning ratios at a given time. In late 1987, the average Tokyo Stock Market P.E. ratio was about 75 compared to the New York Stock Exchange ratio of about 20. No wonder the value of all stocks traded on the Tokyo market at that time exceeded the value of all those traded in New York.

On the other hand, a book valuation of investments does not distinguish between old and new capital. At any given time, the stock of capital in a country consists of investments made over a number of years. Lumping all such capital together at 'book' really does not reveal its underlying value. Generally speaking, 'old' capital will be worth more than 'new' capital.

Some direct investments in Canada have been sold for from three to four times their book values.

A market valuation of foreign direct investment in Canada, for example, would give rise to substantially higher numbers, since many of these investments have been in existence for a long period of time. Similarly, given the rapid growth of Canadian direct investment in the U.S., some researchers have predicted that, by 1990, CDIA in the U.S. will exceed U.S. foreign direct investment in Canada (FDIC).

Even if such predictions were to materialize, the true market valuation of CDIA in the U.S. will still not be anywhere close to that of the U.S. FDIC. This is because Canadian direct investment in the U.S. is relatively new.

One gets glimpses of these gaps in valuations during takeovers. Some direct investments in Canada have been sold for from three to four times their book values.

There are difficulties on both sides. However, on balance, Statistics Canada's present practice of compiling book values of investments as opposed to market valuation continues to be more appropriate.

Which figures are 'correct', the Canadian or the American? The answer of course is both — as long as one understands how the figures were gathered, and what they represent.

The field of international investment statistics is still new and developing. It would be a mistake to rely too heavily on such statistics without taking their limitations and the problems of comparability into account.

Beyond Profit

Smoothing the Joins in J.V.'s

(cont. from page 1)

Magna is involved in a number of joint ventures world-wide; for example, on January 30, 1988, it signed an agreement with two Japanese companies to build a $49-million plant to make plastic auto parts in Tillsonburg, Ontario. Says McAlpine, "We have a bit of an advantage at Magna because we have on staff a lot of language skills and understanding of different cultures — Chinese people who speak the language and live in the Chinese community in Toronto, Austrians, Germans, Japanese . . . . You name it, we've got it."

Every joint venture is treated separately, according to McAlpine. "The key really does go back to how you would expect to be treated if you were in a foreign country. We may have to hire people fluent in a particular language, arrange housing, do whatever is necessary to accommodate our partner."

Mainly, they try to remove negatives, he says, "and one of those is driving around trying to find a place to live. Being stuck in traffic is not very productive. We'd rather have the people working."

Don McKibbin is the Director of Corporate Communications for Connaught Laboratories, a biotech research firm which has business alliances, for example, with Integrated Genetics in the U.S., Daiichi Seiyaku in Japan and Novo in Belgium. He says joint ventures are a very real part of the company's work. "We're constantly negotiating. We had people from Saudi Arabia in here last week, from Japan, China . . . . The field is so specialized that even the largest firms can't do all their own research." Since most of the company's arrangements involve sharing of research results and products rather than staff movement, the biggest non-monetary need is for interpreters.

There are an expanding number of partnerships between Canadian and Asian firms. Xiaohong Sun, of Quadra Logic in Vancouver, feels Canadians tend to be impatient. Discussing the joint venture between his company and Guangdong Enterprises, which is based in Hong Kong, Sun says, "Communication can be a problem. You've got to understand each other before you can do business. It's not only a question of language, but of cultural background, local customs, ways of thinking . . . . "

The venture was established in 1986 to import pharmaceutical products from the People's Republic of China into North American markets. Sun remembers misunderstandings, at the beginning especially, because no staff from Guangdong are working in Canada. Instead, decisions are made and information exchanged by telex, telephone, and FAX.

Joint ventures are increasingly important in R&D. This worker is involved in molecular biology research — counting Escherichia Coli colonies used in genetic engineering. (Photograph courtesy of Connaught Laboratories Ltd.)

"The system is so different. Guangdong Enterprises, which represents all exports and imports in Guangdong province in China, is a government-run corporation. All important business decisions must be approved by upper levels, which takes time. You may call several times and receive no answer, but that doesn't mean they're not interested. It just takes time. If the Canadian partner is too impatient, and, for example, says something sharp in the next telex, the Chinese person will lose faith in the other partner."

He says the quarterly meeting of the board of directors, which includes Canadians and Chinese, is where things get done. "You must talk face-to-face, especially at the beginning. It's too difficult to always be telephoning or telexing."

After two years, the situation is much improved, Sun says, partly because the two sides know each other better, and partly because Guangdong Enterprises is changing its organizational structure to allow decisions to be made more quickly.

Ventures with Japanese companies are also affected by factors such as Western impatience. Dr. Jan Walls, in an article in *Issues* 2/3/11, writes that, in Japan, "markets are built through the development and maintenance of personal relationships *in addition to and prior to* product quality, price and service". An attitude of mutual regard and trust must be established first, before business agreements can be reached — a marked difference from the Western approach of business first, friendship after.

Canadian firms are beginning to make provision for such factors. In one successful partnership, the joint venture established in July 1986 by Mitsubishi Steel and Rockwell International, three families moved from Japan to Mississauga in the first year.

From the beginning, Mitsubishi expressed concern that employees would be accepted into the company culture and the families into the community. Rockwell responded by hiring a Canadian fluent in Japanese as liaison, offering English teaching on company time, hospitality in staff homes, and a well-attended public welcome at a Japanese restaurant. It also helped arrange such necessities as housing and drivers' licences. Since there were at that time over 40 Japanese companies with their headquarters in Mississauga (there are now over 50), the children were well accepted in the school and offered language training, ▶

Board members of the joint venture between Quadra Logic and Guangdong Enterprises (Photograph courtesy of Quadra Logic Technologies Inc.)

there were local Japanese food stores and restaurants, and the cable television carried four programs a week in Japanese. Both sides report a successful partnership to date.

Joint ventures have been called "term marriages". As in matrimony, the big issues are vital, but the small can make or break them. Successful business partners are remembering to screw the cap back on the toothpaste tube.

— by Susan McMaster, Investment Canada

Graphic from **Prospectus Canada,** *a new Investment Canada publication launched at Davos.*

Current Publications from Investment Canada

Canadian Tax System and Incentives for Industry: Material Reviewed as of 1 September 1987. Ottawa: Investment Canada, 1987

Incubators in Canada: A Review of Current Canadian Small Business Incubator Programs Prepared for Investment Canada and the National Research Council, by The Network Inc. Ottawa: Investment Canada, 1986

The Political Economy of Strategic Partnering, by Dr. Lynn Mytelka, Carleton University. Ottawa: Investment Canada, 1987

Venture Capital, by Mary Macdonald, President, Venture Economics Canada Limited. Ottawa: Investment Canada, 1987

Copies of these or other Investment Canada publications can be obtained by contacting the Publications Manager, Investment Canada, P.O. Box 2800, Station D, Ottawa, Ontario K1P 6A5.

Canada at Davos '88

The World Economic Forum (WEF) held its annual Symposium in Davos, Switzerland, from January 28 to February 3, 1988, and for the third year in a row Investment Canada participated, capitalizing on an excellent opportunity to bring Canada's investment message to an international, private-sector audience.

Approximately 800 business and economic leaders gathered to discuss a broad range of subjects under the theme of "The New State of the World Economy".

Canada presented a high profile in Davos. The Canadian federal delegation was headed by Finance Minister Michael Wilson. The province of Ontario was given featured region status at this year's symposium, as was the province of Quebec in 1987. Mr. Wilson, along with our Ambassador to the Multilateral Trade Negotiations Sylvia Ostry, was invited by the WEF to participate in the Informal Gathering of World Leaders (IGWL). As part of the IGWL program, the World Economic Brainstorming session permits the business participants to engage in off-the-record, frank deliberations with the invited international political leaders.

Minister of Regional Industrial Expansion, Robert de Cotret, also participated at this year's symposium — attending plenary sessions, holding meetings with potential investors and attending Investment Canada's reception as a guest of honour.

Members of the Canadian private sector group attending this year's forum numbered more than 30. Several were invited by the WEF to participate in sectoral summits on food and agribusiness, energy, media leaders, and engineering and construction. Canadian business people led briefing sessions on topics from "Managing Diversification" to "Elaborating a Universal Code of Business Ethics".

In addition to, and perhaps as important as, the formal elements of these annual symposia, participants are able to develop their networks of international business contacts through numerous social events.

— by Susan Gates, Investment Canada

Second Canadian Conference On Entrepreneurial Studies

Invited papers from the second working conference on entrepreneurial studies, presented by The School of Business, Queen's University and the P.J. Gardiner Institute for Small Business Studies of Memorial University, in Kingston, Ontario in November 1987, include:

Innovative entrepreneurship, Roger A. Blais, École Polytechnique de Montréal.
This keynote address presented the experiences and opportunities for engineers in technical entrepreneurship.

Technological entrepreneurship meets marketing — the microcomputer software experience, D.K. Chowdhury, R.W. Vandermark, Marketing Management Technology Department, British Columbia Institute of Technology.
This paper focuses on the key linkages between innovation in the marketing of high technology, with particular emphasis on microcomputer softwares.

Intellectual property and the entrepreneur, Alan M. Hale, University of Waterloo.
Decisions made and actions taken in the early stages of an enterprise can affect the protection that can be obtained for the enterprise's intellectual property.

Technological innovation in Canada — independent entrepreneurs vs. corporate entrepreneurs, Russell M. Knight, School of Business Administration, University of Western Ontario.
This paper compares a sample of 124 independent high technology entrepreneurs with 112 corporate entrepreneurs (intrapreneurs) involved in developing and introducing high tech innovations across Canada.

Educating toward entrepreneurship: a review of the international literature, Jean-Charles Cachon, Laurentian University.
The purpose of this review is, after briefly discussing the current state of research on entrepreneurial characteristics, traits and behaviour, to present a number of developments that occurred in various countries in the area of entrepreneurial education.

Small business management and entrepreneurship — education activities in Canada, 1987 compared with 1980, Willard H. Ellis, Faculty of Management, McGill University.
The purpose of this study is to undertake a somewhat more limited survey of the Canadian educational institutions listed in the 1980 study by Dr. Kenneth E. Loucks, in an effort to determine what changes have taken place in the major programs of the institutions since 1980.

The varying faces of entrepreneurship at the University of Ottawa, Wilbrod Leclerc, Faculty of Administration, University of Ottawa.
The Faculty of Administration at the University of Ottawa has been giving for many years a course in launching a small business which, in effect, makes the students go through all the steps in preparing a real business plan.

Teaching entrepreneurship to engineers, Jerry M. Whiting, Mining, Metallurgical and Petroleum Engineering Department, Faculty of Engineering, University of Alberta.
The subject of project management can have several different interpretations, depending upon the background of the teacher.

Networking and executive development groups, Michael C. Volker, Entrepreneur and Adjunct Professor, University of Waterloo.
The best way to keep abreast of new developments or management techniques is to actively participate in (to the point of forcing oneself) networking.

Entrepreneurial networking for skills enhancement — lessons in entrepreneurial education from a city-wide project involving computerized small businesses, John Pliniussen, Administrative Studies Program, Nipissing University College.
This paper will present preliminary results from a recent survey of all small business members listed in the North Bay Economic Development Department's Business Directory.

John G.M. M^cKirdy, School of Business, Queen's University at Kingston, addressing the Conference. (Photograph courtesy of Events Management Inc.)

The entrepreneurial potential of the long-term unemployed, David W. Gillingham, Laurentian University, John H. Lewko, Laurentian University, Kenneth Loucks, Brock University, K. Walter Schwager, Laurentian University.
In 1986 a survey of the attribute profiles of 295 employable welfare cases in Sudbury, Ontario was completed.

A review of technical entrepreneurship in Quebec, Roger A. Blais, École Polytechnique de Montréal, Jean-Marie Toulouse, École des Hautes Commerciales.
A new typology of entrepreneurship is offered and the salient features of each type are briefly described.

Developing the right hemisphere, Leo-Paul Dana, Faculty of Management, McGill University.
This paper correlates aptitudes with styles of learning, and discusses types of skills and how these could be improved.

Promoting entrepreneurship, Lois Stevenson, Faculty of Management & Education, Acadia University.
This keynote address described opportunities for entrepreneurship, particularly for women, drawing examples from experiences in Atlantic Canada.▶

Conference on Entrepreneurial Studies

(cont. from page 5)

Engineers, education and entrepreneurship, Robert H. Grasley, Faculty of Engineering, University of Waterloo.
This paper discusses experiences and problems encountered in the instruction of engineers in entrepreneurial studies, at two study levels, undergraduate (University of Waterloo), and graduate (York University MBA).

A mass education experience in teaching entrepreneurship in Quebec, 'Become an Entrepreneur', summary of the study, Yvon Gasse, Laval University.
The purpose of this summary is to present the results of a study conducted in an exchange workshop that followed the publication of the course, "Become an Entrepreneur", in the daily newspaper Le Soleil *during the autumn of 1985.*

Government support of high-tech firms at start-up, Jerome Doutriaux, Faculty of Administration, University of Ottawa.
This paper surveys high-tech firms, particularly in the Ottawa area, and the ways in which they approach and use government support.

Comparisons and contrasts of management education programs and courses offered to women entrepreneurs across Canada, Dina Lavoie, École des Haute Études Commerciales, Montreal.
Entrepreneurial ventures by women are a rather recent phenomenon and it would seem that most of our Canadian management schools have been caught unprepared to meet the training needs of these women.

Entrepreneurship education at the high school level: developments in Ontario, Gary Rabbior, Canadian Federation for Economic Education.
The framework of the paper is as follows: 1) rationale for entrepreneurship education at the high school level; 2) what we should expect from entrepreneurship education at the high school level; 3) an overview of new programs in entrepreneurship studies; 4) what is being done or can be done to support these new programs.

Proceedings (available April 1988) may be ordered from CCES, c/o Events Management Inc., 4 Cataraqui Street, Suite 209, Kingston, Ontario K7K 1Z7, telephone (613) 547-5093. ✱

For Your Calendar

Financial Analysts Federation

"Global Competition: The Next Decade" is the theme of the annual conference of the Financial Analysts Federation (F.A.F.), to be held in San Francisco May 8-11, 1988. For information, telephone 804-977-8156.

Fourteenth Economic Summit

From June 19-21, 1988, Canada will take its turn in hosting the fourteenth annual Economic Summit in Toronto. Delegates this year include Prime Minister Mulroney and leaders of France, the Federal Republic of Germany, Italy, Japan, the United Kingdom and the United States, and the President of the Commission of European Community. For information, telephone 613-954-2240.

1988 International Business and Investment Exposition

The 1988 International Business and Investment Exposition is the third in a series of events sponsored by Pacific Forums Inc. for exhibitors and visitors, mainly from Western Canada. The 1988 Investment Exposition will be held November 7-9, 1988, at the Vancouver Trade and Convention Centre. For information, telephone 604-669-3818.

Entrepreneur '88

"Ontario: Taking the Initiative" is the catch-phrase for Entrepreneur '88, which is being held May 30 and 31, 1988, at the Metro Toronto Convention Centre in Toronto. Topics include strategic partnering, tax implications for investors, and evaluating business investment opportunities. For information, telephone 416-498-5838.

Network

Network, World Convention of Business Partners, is focussed on joint ventures and technological partnerships. The convention will be held from September 21-23, 1988, at Place Bonaventure, Montreal. For information, telephone 514-288-3931. ✱

We'd Like Your Views

Your responses and views on *Investing In Canada* are always welcome. Letters may be published, subject to the writer's consent. Direct correspondence to:

The Editor
Investing In Canada
235 Queen Street
5th Floor West
Ottawa, Ontario
K1P 6A5

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