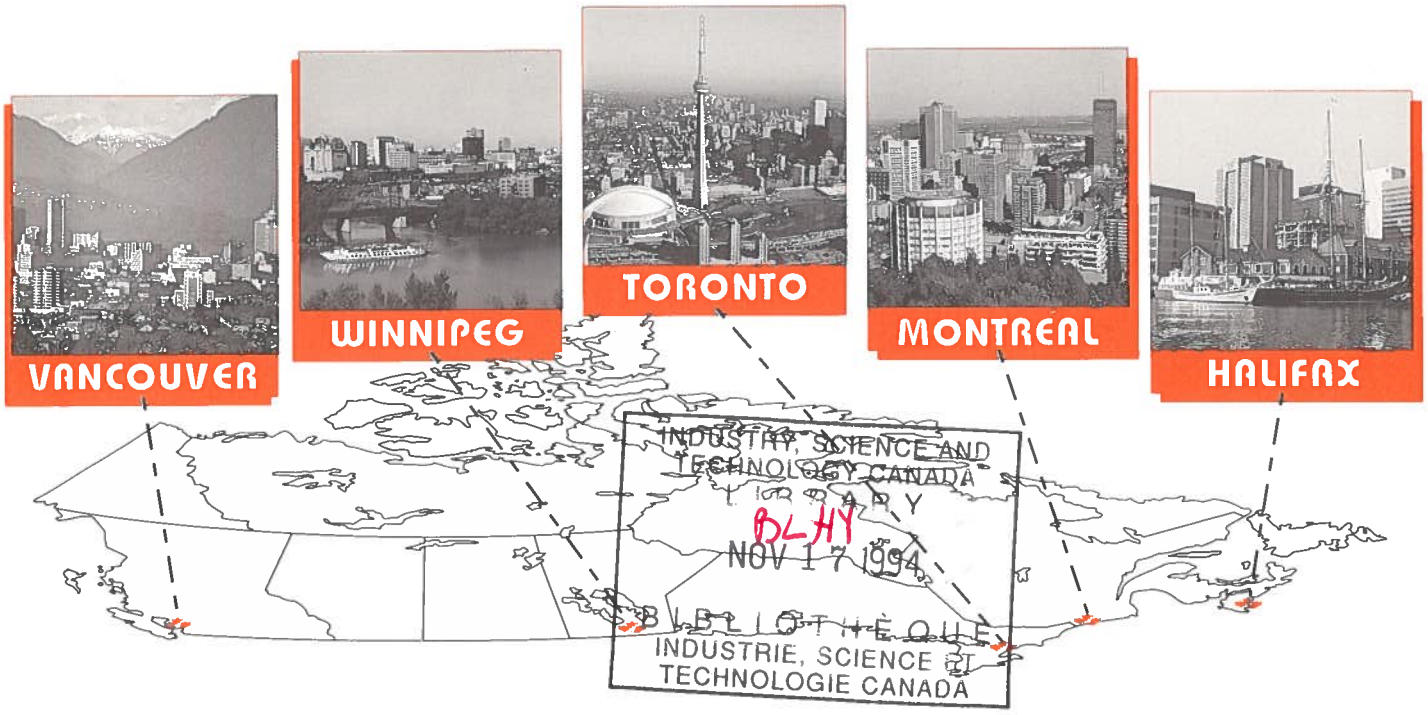
INVESTING IN CANADA

A NEWSLETTER ON CANADA'S INVESTMENT CLIMATE

Vol. 6, No. 1 — Summer 1992

INVESTMENT MONTH
INVESTING IN CANADA'S FUTURE



Forums on Investment are to be held on June 4 (Vancouver), June 9 (Winnipeg), June 11 (Montréal), June 12 (Halifax) and June 15 (Toronto).

The month of June has been designated Investment Month by the Honourable Michael Wilson, Minister of Industry, Science and Technology and International Trade. The purpose of the designation is to raise the appreciation of investment as a key determinant in Canada's future prosperity.

Roundtables and workshops will be held across Canada during the month of June. Members of the business, labour and academic communities and government representatives will discuss what is needed to increase the level and quality of investment in Canada.

The workshops will explore four themes: *1)* The National Investment Challenge; *2)* Making Quality Investments; *3)* Seeking Foreign Investment, and *4)* Canadian Firms and Global Markets.

These investment forums are part of the Government's Prosperity Initiative which was announced in the last Speech From The Throne. Their focus will be on the national investment challenge of increasing both the quantity and quality of Canada's investment effort for a prosperous tomorrow.

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INVESTING IN CANADA'S FUTURE

Excerpts from The Hon. Michael H. Wilson's speech at a special joint session of the Empire Club and the Canadian Club on May 29, 1992 in Toronto.

The 21st century can belong to Canada, if, and only if, we are prepared to invest in our future.

Investment in our future was one of the important considerations behind the launch of our current Prosperity Initiative – an initiative designed to increase public awareness of the challenges and choices before us; to generate practical advice from Canadians; and to build a national plan of action to secure our future together.

The initiative is our response to some undeniable facts of modern Canadian life.

- The fact, proven so ably by the Japanese, that national prosperity can't be built on short sighted, short term actions, whether taken by executives focused on the next quarter, or politicians focused on the next election.
- The fact that any long-term strategy in a democratic society requires broad public support, which in turn requires broad public awareness of the choices before us.
- And the fact that, in this fast paced and complex world, many of the solutions to our national problems rest less and less with the state and more and more with individuals and firms.

That is why we launched our initiative with not one, but two goals in mind. The first was to ask Canadians what the country could do for them – to seek advice about what government can do to improve the competitive environment in Canada.

And the second goal, of even greater importance, was to prompt Canadians to think about what they can do for themselves - to encourage individuals and companies to do a critical self-examination, so they can enhance their own competitive positions.

The Honourable Michael H. Wilson, Minister Responsible for Investment Canada

The emphasis on private sector initiative is not to say that there is no role for government. Of course there is. Rather, it is to say that in the end, our collective future won't be determined by state action, but by the countless, daily decisions taken by thousands of Canadians.

And through the publicity generated by such events, we hope to spread the news of the critical role investment plays in securing our future and the challenges and choices confronting Canadians and Canadian firms.

Today I would like to outline the next step in the Prosperity Initiative – our plan to focus public attention on the national investment challenge before Canadians – the challenge of increasing both the quantity, and the quality, of our investments in tomorrow.

We don't know the precise magnitude of the savings and investment challenge before us, for it very much depends upon the relationship to productivity, and how determined we are as a nation to invest in our future. But we do know we will have to save more, invest more and invest more intelligently in the future than we have done in the recent past.

If we compare ourselves only with the Americans, we look like big savers. But if we raise our sights and compare ourselves to the Europeans and Japanese, the picture is not so rosy. There is no comfort in saving twice as much as the Americans when we save less than half as much as the Japanese. And that is exactly what has happened, with a 20 year net national savings rate of 6 percent in the United States, 11 percent in Canada and 23 percent in Japan.

So we face the challenge of increasing the quantity of our investments. What about their quality?

A close examination reveals some disturbing facts about the quality of our past investments. Our overall average performance, in terms of quantity, masks the fact that Canada is second in investment in residential construction, but twenty-first in investment in machinery and equipment.

There are also concerns about whether Canada's sectoral investment has been well placed to secure best future return. While it is easier to second guess private sector performance than to actually be in the corporate "driver's seat", we must begin to question whether some of our sectoral decisions have been the right ones and whether they were made on the basis of sound information about the future.

That is the message which we plan to carry to Canadians during the month of June – a message which complements the ongoing work of the Prosperity Steering Group. And the importance of this investment challenge is why I am designating June as Investment Month. Through five forums in Vancouver, Winnipeg, Montréal, Halifax and Toronto, we want to hear from informed Canadians about how we can improve the quantity and quality of investment in the country and whether the investment climate in this country is conducive to making these changes.

INVESTING IN CANADA'S FUTURE

The following is a synopsis of some of the issues to be discussed at the Investment Forums in June as set forth in the workshop discussion guide.

INVESTMENT: A KEY COMPONENT OF CANADA'S PROSPERITY

The adequacy of a country's investment effort has a direct bearing on its prosperity not only in the present but in the future.

Investment in buildings, infrastructure, machinery and equipment accounts for almost one-quarter of the Canadian Gross Domestic Product each year. Replacing worn-out and outdated capital with new capital strengthens a nations's productive capacity.

This process starts a cycle of increasing income and wealth, enabling further savings and investment, in a mutually reinforcing process. New investment brings new technology, increased knowledge, and more skilled labour into the economy.

Any action to improve the investment effort will need the full co-operation of all levels of government, the business community, the financial community, labour and Canadians at large.

Theme 1: The National Investment Challenge

- ❒ What do we mean by the nation's investment effort and how do we compare internationally?
- ❒ 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 partnerships are needed between business, labour and government? Are investment and innovation still perceived as a threat to job security and, if so, what can be done to create a more positive response?
- ❒ What broad policy changes or initiatives would materially improve Canada's investment effort?

Theme 2: Making Quality Investments

- ❒ Why was Canada's productivity performance during the 1980s so disappointing when investment was relatively strong? Has the quality of investment been poor?
- ❒ 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?
- ❒ What have been firm-level experiences to date with freer trade relationships? 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?
- ❒ Are there firm-level illustrations where quality investments have been frustrated because of government regulations or other policies?

Investment Climate And The Rate of Return for Investment

The climate for investment in Canada must compare favourably to alternatives abroad; or otherwise, international investment will go elsewhere.

There are many factors that contribute to the investment climate. These can be best described in terms of their effect on profitability. Rates of return are traditionally determined by two main factors: market forces and interest rates. Both of these elements are affected by complex internal and international variables. It is essential that they constantly be re-examined as the economic environment changes.

However, investment rate of return does not depend solely on market forces or interest rates. Government initiatives and a nation's characteristics have a bearing on the profitability of any investment.

The most obvious public sector policy that affects investment is the tax structure. However, governments also indirectly affect rates of return by the degree to which they provide a skilled labour force and an adequate infrastructure for business. Other diverse policies such as preventing environmental degradation, achieving sustainable growth, reducing external indebtedness, and meeting the health and welfare needs of the population have an effect upon the earnings and the productivity of capital.

Furthermore, Canada has unique characteristics that can affect the rate of return on investment. Canada's geography,

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Theme 3: Seeking Foreign Investment

- ❒ Has the competition for international investment greatly intensified? What has been the experience of Canadian firms in attracting international investors?
- ❒ 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 investments here?
- ❒ Are there investment provisions that Canadian firms would like to see reflected in international trade agreements such as the NAFTA?

climate, capital-intensive industrial structure, and small population relative to its land mass, all form part of our investment environment.

Investment, Productivity and Competitiveness

Dr. David Slater, in a working paper prepared for Investment Canada entitled, *The Contribution of Investment and Savings to Productivity*, suggests that the quality of investment is just as important as the quantity.

Methods of addressing productivity and competitiveness include investing in more productive machinery, and performing more research and development in order to generate new products for world markets. Another is to invest in human capital by providing education and training for Canada's workforce. Still others include exploring new management techniques and better industrial relations.

Canada's unit labour costs are not currently competitive with its major trading partner, the United States. Canadian unit labour costs increased by more than 50 percent during the 1980s. During the same period, they barely increased at all in the United States. However, labour statistics show that Canadian workers themselves are roughly competitive with U.S. workers in terms of productivity and wage rates. Canada's investment effort may be part of the solution to addressing our slower productivity growth and the gap in labour costs.

The International Dimension

International investment in Canada's economy enables Canada to overcome a deficiency in domestic savings. This enhanced level of investment allows a more rapid expansion and development than would otherwise be possible. International investors bring capital and new technologies to Canada and give Canada access to new markets and new management skills.

Globalization – the increasing integration of national economies – has accelerated and transformed the way business is structured and conducted. One important dimension of this change is the growing importance of international investment as the vehicle for securing and serving international markets.

Canadian firms enrich Canada when they invest abroad. As Canadian firms establish themselves internationally, they are not only in a better position to increase market share, they provide additional opportunities for the export of Canadian goods and services around the world.

Theme 4: Canadian Firms and Global Markets

- ❒ Are Canadian firms sufficiently aware of the need to think and act "globally"?
- ❒ Joint ventures and other forms of strategic alliances are an increasingly important means of "going global". What has been the experience of Canadian firms with such ventures?
- ❒ 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 Canadian-based subsidiaries of foreign multinationals at a disadvantage in responding to the requirements of global restructuring?
- ❒ Should government be involved in assisting Canadian firms to become global? If so, how?

ATTRACTING INTERNATIONAL INVESTMENT TO CANADA

Canada's Investment Development Program seeks to attract beneficial investment from the U.S. as well as from Europe and Asia. In creating and delivering that program, Investment Canada works closely with investment specialists at Canadian Embassies and Consulates in key financial and industrial markets. The work of two of those Investment Counsellors in the United States are described below. Future issues of *Investing in Canada* will describe the activities of other Canadian investment officers in Europe and Asia.

New York
David J. Lenihan
Senior Investment Advisor

While the Consulate's Investment Development Program seeks to attract direct investment to Canada, it also helps Canadian investors looking for opportunities in the United States by bringing investment proposals to the attention of large corporations and venture capitalists. The north-eastern U.S. is home to almost 25% of the Fortune 1000 companies and is the centre of large research and development budgets.

The consulate is ready to assist Canadian companies in all sectors find American investment partners. Currently, activity at the Consulate is particularly directed toward the following sectors: pharmaceuticals, biotechnology, medical devices, chemicals, telecommunications, software, and environmental industries. We are conducting seminars and roundtables in these sectors which involve some of Canada's finest emerging companies.

Canadian firms have found these and other investment development programs useful for the identification of strategic alliance opportunities for the purposes of marketing, raising capital or research collaboration.

For further information contact: *Canadian Consulate, 1251 Avenue of the Americas, 16th Floor, New York, New York 10020-1175, U.S.A. Tel: (212) 768-2400, Fax: (212) 768-2440*

Strategic Partnering Event At The Canadian Consulate In New York

Nine Canadian biotechnology firms and representatives of eight U.S. multinational pharmaceutical companies met at the Canadian Consulate in New York on March 5, 1992 in search of strategic partnering opportunities.

The Canadian participants valued this type of access to top executives of the pharmaceutical industry. They saw the seminar as an important opportunity to obtain financial support for research and development as well as providing access to the marketing, regulatory expertise and distribution networks of the large firms.

Multinationals value the opportunity to become more informed about the new technologies generated by Canadian firms. Several stated that they attach importance to developing alliances with biotechnology companies.

Los Angeles
Matthew Fischer
Senior Investment Advisor

The Investment Development Program of the Canadian Consulate in Los Angeles represents Canada's interests in the southern California area. This region of nearly 23 million people wields substantial economic clout. Those industries where technological and location advantages are of the greatest importance will thrive in California in the 1990s. Creative services (entertainment, apparel, and design) and high technology industries (avionics, biomedical devices, software, and environmental engineering) will lead the way.

We seek to make U.S. companies aware of investment opportunities in Canada and with Canadian partners. Our efforts centre on finding innovative U.S. companies and convincing them to join forces with like-minded Canadian enterprises interested in forming strategic alliances. Our "Business Opportunity Forums" are designed to present Canada to as many companies as possible, and in turn to introduce innovative Canadian companies to their American counterparts and potential partners.

For further information contact: *Canadian Consulate, Investment Division, 10th Floor - 300 S. Grand Avenue, Los Angeles, California 90071, U.S.A. Tel: (213) 687-4310 ext. 3359, Fax: (213) 620-8827.*

Strategic Partnering Event At The Canadian Consulate In Los Angeles

On March 12, 1992, the Investment Division of the Canadian Consulate in Los Angeles staged a "Canadian Strategic Partnering Forum".

The purpose of the forum was to build awareness among the L.A. business community for the concept of strategic partnering and of Canada as a source of potential partners. The Forum also presented actual Canadian business proposals to an audience of possible American partners and investors.

A number of U.S. companies expressed a desire for more programs of this nature to give them an exposure to more Canadian technology. Several Canadian participants were able to establish positive contacts with American firms for possible investment opportunities.

INVESTMENT CANADA SERVICES AVAILABLE TO CANADIAN AND INTERNATIONAL COMPANIES

Investment Canada provides assistance to Canadian companies looking for investment partnerships with international firms. We also assist international firms in finding the appropriate Canadian investment or a suitable Canadian partner.

The Agency, in cooperation with Canadian Embassies, High Commissions and Consulates abroad, as well as other Federal Government departments and provincial and municipal authorities, provides customized services to individual companies.

These services are described in a new brochure available on request from Investment Canada.

For international investors:

- we prepare company specific briefs on investment conditions in Canada.
- we present specific Canadian investment opportunities.
- we assist potential investors in identifying investment sites and investment partners.
- we supply current information on Canadian government policies, programs and incentives.

For Canadian companies:

- we help Canadian companies find international investment partners for business expansion both in Canada and abroad.
- we bring together international and Canadian companies to encourage joint ventures, strategic alliances and technology transfers.
- we support the efforts of Canadian subsidiaries of multinational companies seeking to obtain additional mandates for their Canadian operations.

For a copy of the brochure please contact us directly at: Investment Development Division, Investment Canada, P.O. Box 2800, Station D, Ottawa, Ontario, K1P 6A5, Tel: (613) 995-0465, Fax: (613) 996-2515.

INTERNATIONAL INVESTMENT IN CANADA

Reports often create the impression that companies are moving their investments from Canada to the United States in substantial numbers. Such claims ignore the pattern of both global and U.S. foreign direct investment in Canada in recent years. Both in 1990 and in 1991, gross international flows into Canada were approximately $9 billion. In 1990, Canada enjoyed a net inflow of direct investment of $6.6 billion. In 1991, the net inflow was $5.9 billion, despite the slow-down in the international economy.

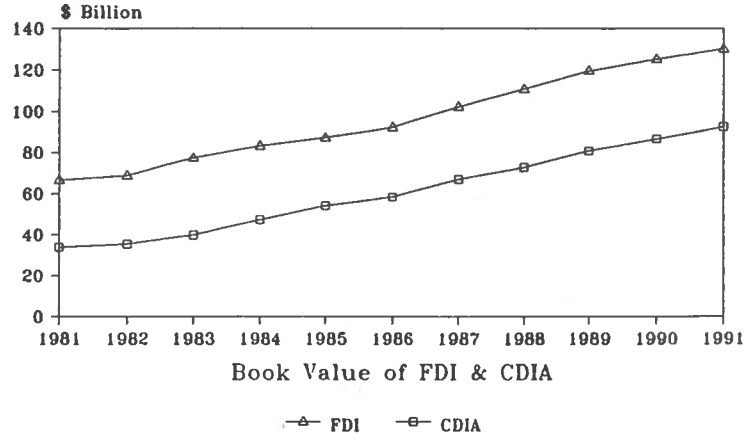
Reports of disinvestment from Canada also overlook the high levels of reinvested earnings in Canada by companies already here. Since 1983, US investment in Canada for example, has increased from $58 billion to $80 billion. Of this growth, some $12 billion or 57% has been financed by the reinvestment of profits and some $10 billion has come from new capital inflows.

The book value of foreign direct investment in Canada has shown a consistent rate of growth from 1981 to 1991. Over the same period of time, Canadian direct investment abroad has shown a similar pattern of growth.

The above decisions by global and U.S. companies are a measure of the confidence business decision makers have in Canada. One of the objectives of the Government in entering into the Canada-U.S. Free Trade Agreement three years ago was to provide decision makers with greater certainty and predictability when choosing Canada as an investment site. The above numbers are a good indication of their response.

Canada's investment climate is expected to be further enhanced as a result of a North American Free Trade Agreement currently under negotiation. That agreement is expected to strengthen or improve the FTA as well as provide Canadian-based firms with preferential access to the large, and increasingly prosperous, Mexican market.

Foreign Direct Investment in Canada & Canadian Direct Investment Abroad



Source: Statistics Canada

RECENT AMERICAN INVESTMENTS IN CANADA

DOW CHEMICAL COMPANY INC.

Dow Chemical is currently investing some $800 million in Alberta. The project consists of the construction of a fractionation plant and related underground storage facilities to supply raw materials for a new world scale ethylene facility. At the same time, Dow plans to double the size of its polyethylene plant on the existing site. The expanded facility will export half of its production, primarily to the United States and the Pacific Rim. The implementation of the Free Trade Agreement played a major role in convincing the company to proceed with the project.

FORD MOTOR COMPANY

Ford Motor recently announced that it has chosen its Canadian subsidiary to manufacture a new generation of cars and engines. Ford will invest $800 million in the project by constructing new automobile parts and casting plants and by retooling some of its existing assembly plants.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

In April of 1992, American Telephone and Telegraph Company (AT&T), announced that it will begin to manufacture communications equipment in Canada. It plans to expand its NCR Canada Ltd. subsidiary in Waterloo, Ontario to manufacture circuit packs for fibre-optic telephone transmission equipment. AT&T will sell the circuit packs to telephone companies worldwide. The expansion will create 50 new jobs.

KRAFT GENERAL FOODS CANADA INC.

Kraft will invest $74 million in capital projects this year. The company plans to expand plants in Ontario and Quebec. The company stated that one of the reasons it is making this investment is because of the Free Trade Agreement.

BOWATER MERSEY PAPER COMPANY LIMITED

Bowater Mersey, a subsidiary of the paper manufacturer, Bowater Incorporated, recently invested $150 million to upgrade its facility in Liverpool, Nova Scotia. The investment will allow Bowater to increase the capacity of the factory and reduce plant emissions.

CHRYSLER CANADA LTD.

Chrysler Canada has committed $60 million for the retooling of its Brampton, Ontario plant to produce parts for the new "LH" model. At the same time, Chrysler plans to invest in a new stamping plant and has chosen its Bramalea, Ontario facility to assemble the "LH" car.

GENERAL ELECTRIC CANADA INC.

General Electric Canada is investing $144 million to refit its two Oakville, Ontario plants. The factories will manufacture two new types of energy efficient light bulbs. The new project is expected to create 190 new jobs.

MERCK FROSST CANADA INC.

Merck Frosst Canada will construct a $50 million pharmaceutical research and development centre in Montréal in the fall of 1992.

MINNESOTA MINING AND MANUFACTURING COMPANY

Since March 1990, 3M Canada Inc. has invested some $42 million to upgrade its London, Ontario plant and to establish a new manufacturing facility in Brockville, Ontario. The new Brockville facility will produce pressure sensitive tape for world markets.

UNION CARBIDE CANADA LTD.

Union Carbide Canada will invest some $200 million by 1994 to renovate and modernize its existing manufacturing facility in Montréal.

PRATT & WHITNEY CANADA INC.

By 1996, aircraft manufacturer Pratt & Whitney will invest $346 million to build two new parts plants in Quebec and another in Alberta. Each of these plants will employ up to 500 workers.

PRESIDENT OF INVESTMENT CANADA VISITS KOREA AND TAIWAN

Mrs. Jean C. McCloskey, President, Investment Canada.

Jean C. McCloskey, President of Investment Canada met with government and business officials in Korea and Taiwan in April in order to encourage closer investment ties with Canada.

In addition to meeting with a number of companies, Mrs. McCloskey spoke at a Bank of Montréal Resource Sector Seminar in Seoul. The seminar was co-hosted by the Korea Development Bank.

In her speech, Mrs. McCloskey summarized investment policy changes recently announced by the Federal Government. In the Budget last February, it had been announced that federal corporate income tax rates in the manufacturing and processing sectors would be reduced. Furthermore, Canada's tax law has been changed to make Canada more attractive as a headquarters site for international shipping companies.

Of particular interest to the Korean audience was Canada's new oil and gas policy. The new policy removes restrictions that had prohibited the sale of financially healthy Canadian-owned oil and gas businesses to non-Canadians. Under the new policy, the acquisition of an oil and gas enterprise will be treated as any other investment under the *Investment Canada Act*.

After her visit to Korea, the President had the opportunity to participate in the sixth joint meeting of the Canada-Taiwan Business Association in Taipei, Taiwan.

In her speech at the meeting, Mrs. McCloskey noted that there is relatively little investment between Canada and Taiwan, even though two-way trade approximated $3 billion in 1991. She told participants that Investment Canada provides a matchmaking service for international companies looking for Canadian investment opportunities and partners, and that the Agency would be pleased to assist Taiwanese companies in achieving their investment objectives.

Mrs. McCloskey challenged Taiwanese business leaders to visit Canada and to investigate for themselves the investment opportunities available.

The President also informed her audience that Investment Canada, in cooperation with the Canada Trade Office in Taipei, will be organizing a number of investment seminars, sector-specific roundtables, and other match-making events in Taiwan over the course of the next twelve months.

In closing, Mrs. McCloskey stated, "But governments have a role to play as well. They provide the policies and business environment which encourage and facilitate commerce. The Canadian Government is committed to trade liberalization and to the promotion of greater international trade and investment links.

The presence today of so many senior Canadian corporate representatives demonstrates that Canada's business community is equally committed to breaking down barriers and getting on with doing business together.

The potential for expanded trade and investment is there. It is time to exploit that potential. Those of us in this room have the primary responsibility in leading that effort. The Canadian side has never been more committed to doing so."

Investing in Canada is published quarterly by Investment Canada, the investment development agency of the federal government. The mandate of Investment Canada is to promote investment in Canada, by both Canadians and non-Canadians; to carry out research and provide policy advice on investment matters; and to review major foreign investments to ensure they are of net benefit to Canada.

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