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CANADA-U.S. ECONOMIC RELATIONS

The following excerpts are from an address by Mr. Maurice Sauvé, the Minister of Forestry and Rural Development, on May 1 at New York University:

...Investment by foreign firms is occurring in virtually every nation of the world - not excluding Communist countries. And it is not just happening by itself. It is a matter of deliberate policy both of the firms themselves and in many cases, of the receivers as well. Virtually every state, province and municipal area in Canada and the United States as well as many large industries - such as railroads - have established agencies for the express purpose of encouraging the development of industry. They certainly do not restrict themselves within national boundaries....

Let us take a look at the Canadian-U.S. situation. *First*, we must recognize that substantial foreign investment in the Canadian economy is not a new phenomenon. *Second*, we must recognize that foreign investment is decreasing sharply in relation to the size of the Canadian economy. Before the Second World War, foreign long-term investment substantially exceeded 100 per cent of our gross national product. Since the war, though the overall amount of this investment has increased, it has declined proportionally in comparison to our GNP, to between 50 to 63 per cent. *Third*, while the relative magnitude of foreign investment is decreasing, a larger proportion is being placed in direct investment - that is, designed to control the operation of the company in which investment occurs - and a smaller proportion is being placed in portfolio investments - that is, bonds and stocks not giving control. By the end of the 1930s, direct investment constituted 33 per

cent of foreign investment. By 1957 it had become 58 per cent, a level which has remained approximately stable until the present.

Fourth, the degree of non-resident ownership is high in three sectors, in manufacturing it is over 50 per cent, in petroleum and gas, mines and metals it is over 60 per cent of total capital invested. However, even if more foreign investment is being channelled into direct investment, the overall non-resident control in the Canadian economy has not varied greatly.

In sum, while there has always been considerable foreign investment in Canada, it is declining in comparison to the wealth Canada produces. A greater proportion of foreign investment is taking the form of direct investment, but the level of this investment is taking the overall direct investment - that is, both foreign and Canadian - remains stable. In manufacturing and resource development industries, the level of foreign ownership is high, well over 50 per cent of capital investment, and if there are problems resulting from foreign ownership it is these sectors of the economy which are most directly concerned....

MYTHS OF FOREIGN INVESTMENT

It has been suggested that there is an actual or potential conflict between the interests of Canadian subsidiaries and their foreign parent-companies, who may seek to maximize their long-term profit on their national and international operations taken as a whole. Decisions which are reasonable from this point of view may not necessarily lead to the maximum development of a Canadian subsidiary from a