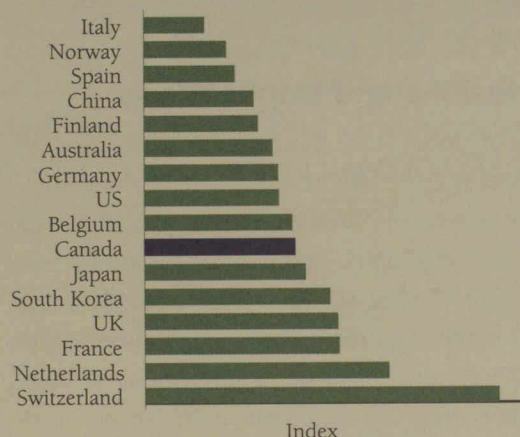


presence of the multinationals of other countries. U.S. multinational enterprises (MNEs) have 21 times the value of sales outside of North America compared to Canadian MNEs and 18 times the number of employees. With U.S. GDP roughly 11 times that of Canada, this suggests that U.S. firms have about twice the international presence of Canadian firms even scaled by the size of the economy. But this may be changing. In the 1980s, 69.3% of Canadian outward FDI flows went to the U.S., in the 1990 and thus far in this decade, the share has been 48.9%.

Ontario's Institute for Competitiveness and Prosperity identified 72 Canadian-based global leaders; companies that claimed top-five status in a market niche. This was more than double the 33 they were able to identify in 1985 confirming the good performance that we noted earlier. It again must be emphasized that if this good performance is to continue Canada needs to have an environment that is conducive to attracting and retaining existing multinationals (both Canadian and foreign) as well as to grow new Canadian companies. The same study noted that only 16 of the 72 companies making the current list were also on the list in 1985.⁴⁷ Thus the turnover is considerable and picking winners is difficult. Similar research for the U.S. arrives at generally the same conclusions; there is a high degree of turnover in corporate headquarters of which smaller firms growing to become the corporate champions of tomorrow constitutes an important part.⁴⁸

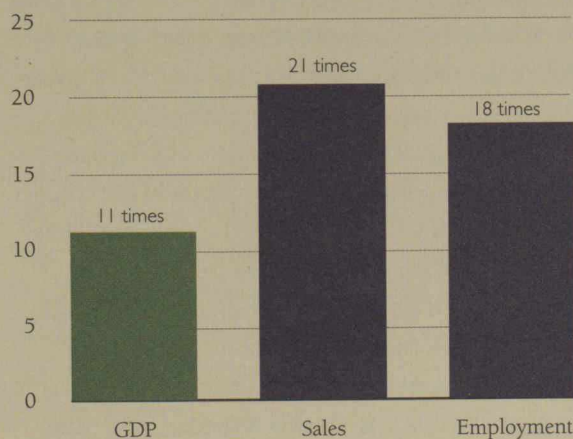
With the growth of China, India and others, Canada will account for an ever-smaller slice of the global economy. At the same time, companies will have a larger pie in which to do business and the average size of global players will likely increase. But the rise of global value chains may benefit Canada if we can attract the headquarters of these growing companies. Improvements to communications and

Number of Companies on Fortune Global 500 Scaled by Size of Economy



Data: Fortune Magazine and World Development Indicators.

Operations of Canadian and U.S. MNEs Outside of North America*



Data: Statistics Canada FATS and U.S. BEA operations of majority owned non-bank foreign affiliates, 2004

transportation will lessen the need for companies to cluster their location. Thus it may be less likely that a few cities like New York, London, and Shanghai will host all of the world major companies and smaller locations in Canada can compete if they are able to offer an attractive location. The growth of other countries not only does not hurt Canada but is beneficial. The challenge for Canada is thus

⁴⁷ Institute for Competitiveness and Prosperity 2007 Annual Report

⁴⁸ "Location trends of large company headquarters during the 1990s" Klier and Testa.