

When the IDP was created, three Canadian government departments were charged with contributing to the investment-promotion effort: Investment Canada, a federal agency that co-ordinates the overall promotion of investment in Canada; External Affairs and International Trade Canada, responsible for delivering the IDP abroad; and Industry, Science and Technology Canada, whose role is to identify domestic investment interests and pay particular attention to sectoral and regional investment activities.

Government promotions have found appreciative clients. "The establishment of our business in Quebec is in large measure due to the efforts of the governments of Quebec and Canada who recognize our expertise," says Stéphane Magnan, president and director general of Montupet SA of France, which established an automotive manufacturing plant near Montreal in 1989.

But the changes to Canada's investment landscape have gone much further. The federal government has deregulated key industries, such as transportation, energy and financial services, allowing market forces to establish rates and prices. It has also whittled away at the federal budget deficit — reducing it from 8.6 per cent of Canada's gross domestic product (GDP) in 1984-85 to 4.8 per cent in 1988-89.

Furthermore, to the advantage of foreign and domestic investors, Canada's tax rates have been lowered. In 1988, the general federal corporate income tax rate dropped from 35 per cent to 28 per cent, and in 1991 the tax rate for

manufacturing will drop from the present 25 per cent to 23 per cent. By contrast, the federal income tax rate in the United States is 34 per cent for manufacturing and other companies.

In business terms, these measures have sent messages of confidence, responsibility and willingness to compete to foreign and domestic investors. These improvements have increased the allure of Canada's basic business attractions: comparatively higher corporate profits and lower business costs than those existing in many other countries.

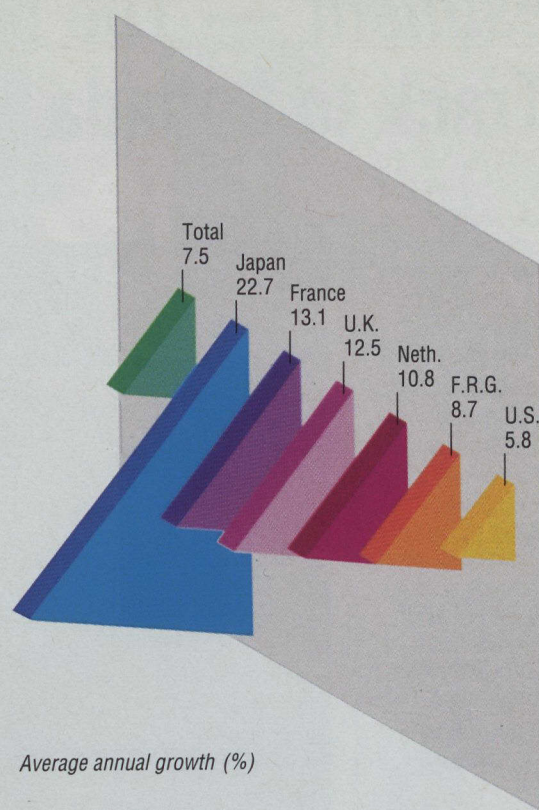
The Free Trade Era

The Canada-U.S. Free Trade Agreement (FTA) is the centerpiece of the new, liberal investment landscape. The largest trade agreement ever reached between sovereign nations, the FTA will eliminate over the next 10 years the trade barriers that currently exist between Canada and the United States. While 75-80 per cent of cross-border trade was already duty-free before the agreement, the FTA now places the Canada-U.S. trade relationship on unprecedentedly secure footing.

With this kind of security in place, Canadian-based firms now have greatly improved access to a North American market of some 270 million people. From Toronto alone, 103 million people in major U.S. cities are within one day's trucking distance. In all, more than 150 million people live within a day's trucking distance of the Canada-U.S. border, and another 60 million live within two days' trucking distance.

In anticipation of the FTA, Ferro Corp. of Cleveland bought an Ontario-based firm called Canadian Plastics Concentrate Ltd. (CPC) in 1988.

Growth in Book Value of Foreign Direct Investment in Canada By Major Source Countries, 1980-1988



Average annual growth (%)

Source: Statistics Canada

CPC makes plastic compounds used to manufacture a wide variety of goods. Ferro, a *Fortune 500* company, appreciated that CPC was ideally located for supplying Michigan's auto industry, given the new open trade borders under the Free Trade Agreement. Said Adolph Posnick, the Canadian-born chairman of Ferro Corp.: "We would not have bought that facility if free trade were not being discussed." Plans for CPC include a switch to production of goods of a more highly finished and more specialized nature — part of its attempt to win and secure larger market shares.

Many small firms in both countries are finding joint ventures to be the most effective strategy in tapping the whole North American market. One example involves Nordco Ltd., a Newfoundland research and development company that produces underwater sensing equipment and signal processors.

Through a joint venture with Connecticut-based Ship Analytics Inc., the two firms design and fabricate simulators of ships' bridges for training ships' officers.

Benefits flow both ways in this joint venture. The arrangement gives Nordco access to a U.S.-based sales organization. For its part, Ship Analytics gains ease of access to Canadian contacts and to Nordco's technical expertise.

The FTA's allure has already become a strong factor in the thinking of many investors, especially those who consider the Canadian lifestyle an added attraction. Laporte Chemicals of the United Kingdom recently invested \$12.5 million to expand the Edmonton-based chemical firm, Terochem Laboratories Ltd. Most of the plant's production will be exported to the United States.