

approvals and R&D tax credits and disallowances. These and other issues are being systematically addressed where possible so that Canada can continue to offer an investment climate second to none.

#### **Attracting New International Investments**

Timing can be crucial in attracting new investment to Canada and sectors chosen must suit not only the needs of Canadians but the needs of foreign investors according to their stage of development or expansion overseas. In the United States corporate concentration is huge and diversified. For example, the investment promotion sections of our Embassy and Consulates (including satellite offices) have covered under their corporate liaison and company outreach programs, major U.S. based firms involved in life sciences (including pharmaceuticals, ag-bio, environment), communications (including arts, publishing, media), information technologies (telecoms, semi conductors, software and hardware), food processing, aerospace, energy, petrochemicals, mining and forest and building products.

The criteria for selecting U.S. based firms (including North American HQs of European and Japanese MNEs) to approach in these sectors are supported by company outreach and analyses done by the Department of Foreign Affairs and International Trade (including posts in Asia, Europe and the U.S.), Industry Canada and Agriculture and Agrifood Canada.

This is also supported by additional complementary research by *Investment Partnerships Canada* (IPC) that indicates that these MNEs have:

- aggressive North American investment strategy; strong R&D performance; significant exports to Canada, North America or third markets
- leadership and innovation in their respective industries, including complementary technologies or processes; and
- reasonable size and sustained growth record.

IPC will be focusing on a targeted number of multinational enterprises (MNEs) that have the greatest potential for investing in Canada. The appointment of three Deputy Ministers as "Country Champions" for the U.S. (one each for the three main North South corridors) to visit leading MNE investors will enhance this program. This will be complemented with sector-specific campaigns in agrifood, information technologies (i.e., semiconductors) and life sciences, including participation from "Team Canada" partners.

#### **Retaining and Expanding Existing Investments**

Reinvested earnings account for some 60% of capital accumulation, a fact that highlights the importance of encouraging firms to expand their operations in Canada. The findings of the 1997 KPMG study underscore the fact that competitive business costs in Canada are indeed contributing to higher returns and healthy bottom lines.

One of the strongest arguments Canada has to entice new international investors to consider Canada, are the over 4,580 affiliates of foreign MNEs (including 2,100 U.S. affiliates from over 50% of *Fortune 500* companies) already serving the North American and other world markets from Canada. Half of Canada's exports, and three-quarters of its manufactured exports, are produced by affiliates of foreign companies operating in Canada.

The Department of Foreign Affairs and International Trade, Industry Canada, Agriculture and Agrifood Canada, Investment Partnerships Canada, provincial and municipal governments maintain regular contact with Canadian subsidiaries and North American headquarters of foreign and U.S. firms. As U.S. Posts conduct regular corporate liaison and outreach visits to U.S. and other international investors that already have operations in North America, parallel "back-to-back" visits to their subsidiaries in Canada and North American headquarters in the U.S. are also being increased.

Alternately, efforts are made to reach them with encouraging messages that confirm the industrial and economic strength of Canada so that they can bolster the confidence of their parent companies in their investments and potential for expansion in Canada. This helps pave the way for more effective action by individual Team Canada partners. Also increasing are important complementary retention and expansion efforts by several provinces and municipalities to help senior executives of Canadian affiliates build their investment case with their parents (N.A. headquarters and/or home base).

#### **R&D and Venture Capital**

The linkage between research, development and venture capital is well illustrated by the attached chart, taken from a presentation by the Medical Research Council of Canada. It emphasizes the fundamental role played by basic research in the "virtuous cycle of growth and development opportunities". Without it, tomorrow's innovative