## F.R.G. Investment in Canada

The Federal Republic of Germany has been, and continues to be, a significant exporter of capital and technology. Endowed with a large cadre of efficient management and excellent state-of-the-art technology in many sectors that are complemented by a solid capitalization base, the F.R.G. represents an attractive source of industrial development prospects.

West German direct investment abroad has amounted to DM 66 billion since 1952. Canada has been a most attractive market for those investment funds, which totalled $1.6 billion by the end of 1981. As a result, the F.R.G. is Canada's third most important source of foreign direct investment after the U.S. and Britain. Most of that investment has been made over the last decade. More than 50 per cent of the total value is concentrated in real estate, joint ventures, mutual funds and oil and gas exploitation.

A considerable number of firms with full or partial German ownership are established in Canada. Although a definitive accounting is difficult to achieve, an estimated 1,500 Canadian companies can trace partial or total ownership to German firms. Conversely, and taking the perspective of the F.R.G., the directory published by the German-Canadian Chamber of Commerce in October 1980 listed 229 German firms having subsidiaries or branches in Canada. Despite those impressive numbers and the undeniable growth in bilateral trade over the past decade, a major expansion remains attainable in all aspects of Canada's exchanges with Germany. For example, in merchandise trade, which is often a precursor of industrial co-operation, Canada currently accounts for only 1 per cent of German exports. Business connections have focused on direct sales and equity investments, rather than on licensing and joint ventures.

## Canadian Investment in the F.R.G.

By 1978, Canadian investment in Germany was less than one-fifth the value of German investment in Canada. Nevertheless, by that year the Canadian total was $225 million, which placed the F.R.G. seventh as a destination for Canadian investment. Some 80 Canadian subsidiaries are known to be established in Germany, representing Canadian interests in the clothing, packaging, electronics, financial, tool and die manufacturing, and metal fabrication sectors, among others.

## Incoming Industrial Co-operation

The balance of this section focuses on Germany-to-Canada, or incoming, industrial co-operation. That does not imply a lack of interest in industrial co-operation in the Canada-to-Germany direction. Of course, Canadian investment and joint ventures in Germany have been, and will continue to be, established, as a result of individual corporate decisions made by Canadian firms. Those steps will be taken after the Canadian firm has been successfully marketing its manufactured products in Europe and recognizes that an ongoing presence is critical to the maintenance or growth of its market share.

An examination of the recent Canadian experience, with *incoming* industrial co-operation, suggests a classification into two basic categories*:

i) secondary and tertiary manufacturing, often of small or medium size;

ii) macroprojects, frequently related to resource development.

Industrial development in secondary and tertiary manufacturing is a very competitive field. Both within Canada and internationally, potential industrial investors are courted assiduously. Ideally, the search for incoming industrial development will entail a matching of Canadian sectoral requirements and resource development intentions with those areas of technology where German industry is most particularly competent. Also, selection of the type of industry is governed by policy considerations. The orientation to growth sectors would be in keeping with the federal government's commitment to encourage high technology industries that will be better able to meet intensifying international competition.

The situation is different for macroprojects. Such projects are usually pursued by very large financial-industrial groups that customarily have identified and evaluated the project opportunity at an early stage. The role of government can best be described as influencing the project environment as opposed to the more explicit activity of seeking out partners. Functions such as the granting of export permits, royalty arrangements, resource access, and duty or taxation agreements frequently have a critical impact on the project viability. On the other hand, the major economic impact of the macroproject is usually an argument that cannot be ignored by the federal government (and its provincial counterparts).

## The Competition

For projects embodying secondary and tertiary manufacturing, it must be recognized that Canada is but one of several possible sites for foreign industrial investment by F.R.G. interests. There is a component of German foreign policy regarding relations with the Third World that encourages German investment in developing countries. More significantly, our competitors among the developed countries, notably the United States, are highly organized in their system of seeking out and assisting incoming industrial development. Canada is an attractive destination for German industrial investment, since it possesses a stable political environment, affluent population and well educated work force. In the context of seeking German participation, there are additional factors: easy access to the U.S. market for most products, assured energy supply at reasonable cost, and a low Canadian dollar.

* This discussion of industrial co-operation leaves aside major government procurement involving the military and transportation sectors.