

What often receives less attention is the dramatic impact that foreign direct investment (FDI) has on jobs and growth in Canada

astounding annual production level of 14 million units today. Rapid economic growth, two oil crises and strict domestic emission standards in the 1970s, combined with intense competition, led to the perfection of affordable, compact, fuel efficient and high quality cars that became attractive in American and other markets. Globalization started in earnest and was characterized by constant efforts to develop, produce and sell cars at the local level. These trends were intensified by trade frictions and the soaring value of the yen in the 1980s. By 1994, the number of Japanese cars produced overseas exceeded the number exported from Japan.

During the same period, Japanese electronics industries have passed through the same stages on their way to globalization. In stage one, their business activities were confined to the domestic market alone. In stage two they began exporting their products through trading companies. In stage three, encouraged by expanding exports, they set up their own overseas sales networks. In stage four, they sought to alleviate trade friction and currency exchange risks by relocating their production and research and development facilities abroad. By stage five, their sales and production have become completely borderless and very competitive in a global market that is becoming increasingly "free". Their biggest challenge has become the skyrocketing cost of research and development, leading to joint research programs with both domestic and overseas firms, often with competitors. For example, Siemens and Toshiba have had a joint project to develop the 256 Mbit DRAM since 1992.

Thus trade and investment are very closely linked. To do business in the developing countries of Asia it is essential for Canadian firms to create affiliates or to have very close business associates in those places. It is significant that cumulative FDI in Canada was \$180 billion in 1996; what is not so widely recognized is that the accumulated stock of Canadian direct investment abroad (CDIA) in that year totalled \$171 billion or 95% of FDI, a percentage that has been increasing steadily over the past twenty years as Canadian firms have internationalized. Also, with service intensive products such as software, direct investment in the place of delivery is becoming more and more essential as Canadian software companies exporting to Japan are very much aware.

In investment promotion, the trick is to recognize the stage of development of a country's industry and to find opportunities for cooperation between Canadian and foreign firms that suit precisely that stage and timing.

ANNEX II

General Investment Promotion Techniques

The importance of investment

About 11,000 jobs are sustained by \$1 billion in real exports and between 6,000 and 8,000 net new jobs are created when real exports increase by \$1 billion. What often receives less attention is the dramatic impact that foreign direct investment (FDI) has on jobs and growth in Canada. How important are foreign affiliates to Canada's economic expansion? Today, three jobs out of ten in Canada (direct and indirect), more than 50% of total exports, and 75% of manufacturing exports are directly attributable to FDI in Canada. Studies suggest that the attraction of one billion dollars worth of FDI into Canada will provide up to 45,000 jobs over a five year period. While Canada has had some success in the last two years in increasing FDI flows into Canada, our share of global FDI has continued to decline. In fact, Canada's share, which was 11% in the early 1980's, had fallen to 4.5% by 1995, due largely to the rapid increase in global FDI and considerable competition from the United States, the developing countries of Asia and from Europe during the establishment of the common market.

Although Canada's share has fallen, the absolute figures have, in fact, risen. In 1985, the stock of FDI in the world was US\$700 billion, so that Canada's share of 11% was equivalent to \$77 billion in that year. In the following 10 years, there was an amazing