

Investment

Germany is Canada's fifth most important source of foreign direct investment with assets in Canada valued at \$4.97 billion.

Germany is a leading industrial power, home of many multinationals. The engine of its economy is exports, but manufacturers are increasingly finding their products uncompetitive in foreign markets due to the high production costs in Germany. As a result, many firms are looking for lower-cost locations. Many are also persuaded that they have to be physically present in major markets if they are to be successful there. Indeed, most German investment in the past several years has been in industrialized countries, indicating more interest in securing market access and being closer to the market than in just reducing costs.

NAFTA has encouraged many German firms to consider a North American location in order to meet local-content criteria for duty-free export to NAFTA countries. Similarly, German firms are investing inside other trading blocks, such as Mercosur. Most of the recent German investments in emerging economies have been directed to Eastern Europe, particularly to the Czech Republic.

Currently Germany invests less abroad as a percentage of exports than any other major country, 1/3 of Great Britain or USA, and almost 1/4 of the Japanese level. Given the cost squeeze and continuing interest in securing foreign market position, it is likely that German foreign investment will continue at a high and increasing level. With a strong DM, many firms are cash rich and are actively seeking foreign acquisitions.

Particular opportunities for Canada

Most of the large German multinational enterprises (MNEs) are already present in Canada. There is limited scope to influence them as they rely on their own resources for information. But these MNEs offer considerable potential for growth of their Canadian operations through expansion or acquisition.

Germany has a high percentage of family-owned small and medium-sized enterprises (SMEs), known as the "Mittelstand," which represent the majority of German investors in Canada. Historically, these firms have been receptive to Canada, have much expertise and technology to offer and are, therefore, the main target of investment promotion activities.

German firms are strong in machinery, and in manufacturing and process technology. German investors can, therefore, make an important contribution to Canada's manufacturing base.

Many company owners see Canada as a land of considerable potential and enviable lifestyle for them or their offspring, even contemplating immigration. Taking into account the very favourable German view of Canada as a vacation

destination, many Germans see opportunities for investment in the tourism industry.

Constraints to investment promotion

For most Germans, Canada is not on the map as a place to do business. It ranks 31st as an export destination for German products, and 25th as a source of imports. When Germans think of NAFTA, they think about cheap wages in Mexico and the huge market in the USA. A major concern for firms contemplating a production facility in Canada is the ability and ease of exporting to the USA from a Canadian base.

As the strongest economy in Europe and an important source of foreign investment, Germany is the target of aggressive investment promotion from a large number of countries including the USA.

The USA has an overwhelming influence on the business environment. The US German Chamber of Commerce has 3000 members. A thousand U.S. firms have subsidiaries in Germany and thousands more have sales agents. Advertisements for products from the USA flood the media. Canada does not come readily to mind.

The key to Canadian success in investment promotion is *awareness recognition*: when business persons can be convinced to look at the Canadian advantages, they are inevitably impressed.

Investment promotion

In the absence of a massive public relations effort, the dissemination of information on Canadian business opportunities must become more creative. In the past, work with banks, Chambers of Commerce and associations on joint promotions to their clients or members has been successful. This effort will continue.

Germany is host to the largest and most successful trade fairs in the world. They bring together the entire target audience in a given sector for investment and partnering promotion, not only from Germany, but from many other countries as well. With adequate preparation, such as mail-outs, personal contact and target identification well before the show, these fairs can provide tremendous prospecting potential for both partnering and investment.

Key target sectors for investment

Based on Canada's comparative advantage, the following sectors are receiving particular emphasis for investment promotion activity:

- Autos and auto parts
- Machinery, equipment and components of all types
- Machine tools and hardware
- Electrical and electro-mechanical devices
- Food processing
- Instrumentation
- Medical devices
- Building products
- Furniture and components

