

# foreign investment

## and the

## canadian economy

Following is an analysis of the Canadian economy and foreign investment. It was written by UNB Assistant Professor John R. Brander, who is in his sixth year of lecturing at UNB.

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We welcome Professor Brander's submission to the Brunswickian, and we would appreciate submission from other members of this University's academic community.

by **John Brander**

There has been a growing concern in Canada over the past decade over the question of foreign (especially American) investment in the Canadian economy. Canadians have come to recognize, perhaps too late, that the benefits of foreign investment carry with them considerable cost - in the form of reduced control of our resources, the partial loss of sovereignty, and growing interference in Canada's economic life. Possibly because this recognition has come so late, the pendulum has been allowed to swing too far in the other direction. Consequently, the benefits which foreign investment has brought seen today to be largely ignored. A more balanced view of the situation seems necessary.

The Canadian economy has, of course, always relied heavily upon external sources of funds to finance its development. In the period before World War I, the largest share of these capital imports come from Britain, and were primarily portfolio investments. Since that time, an increasing percentage of the funds used to finance Canadian growth has come from the United States, and a large proportion of these have been direct investment is far more significant than the change in source. Direct investment carries ownership of capital resources with

it. Portfolio investment, being loan capital, does not. Thus, the increasing importance of direct investment has meant that, in each successive year, a large proportion of the Canadian economy has been owned - and therefore controlled - abroad. It is this transition which lies at the root of the current controversy.

The issues which foreign investment raised are only partly economic. In addition there are political and legal impli-

cations. Therefore any complete analysis of the subject of foreign ownership and control must take all these into account. The Report of the Task Force on the Structure of Canadian Industry (The Watkins Report) suggests that:

"Six major issues face Canada and its policy-makers as a result of foreign ownership and control of Canadian economic activity:

- the benefits and cost of the multinational corporation
- the availability of information about corporations
- concentration of market power and restrictive trade practices by firms
- the performance and efficiency of firms
- extraterritoriality
- Canadian participation"

Basically the question is one of whether foreign controlled firms are utilizing Canadian resources in the best interests of this country. Before this question can be answered, some background is necessary about the growing dependence of the economy on firms owned by non-residents.

### FOREIGN INVESTMENT IN CANADA:

The record of foreign direct investment in Canada is shown in Table I for the period 1954 to 1965 inclusive. As the table indicates, the volume is substantial, indicating that over the period non-residents gained an increasing degree of control over Canadian resources. The table also shows that the volume varied considerably from year to year, introducing the possibility that dependence on foreign investment can introduce instability into the Canadian economy, the table also shows the importance of American direct investment in the totals. Table 2

shows the contribution of direct foreign financing of both gross and net capital formation in Canada.

TABLE I

Direct Investment in Canada  
(millions \$)

Year	All Countries	United States
1954	425	305
1955	445	317
1956	650	465
1957	545	403
1958	430	304
1959	570	428
1960	670	461
1961	560	366
1962	505	328
1963	280	220
1964	270	188
1965	405	353

Source: DBS The Canadian Balance of International Payments - 1946-1965 Table 4 D-1.

TABLE 2

Direct foreign financing of Canadian Investment (per cent)

	54-7	58-61	62-5
Gross Capital formation	31	33	33
Net Capital formation	43	47	43

Source: DBS The Canadian Balance of International Payments 1963, 1964, and 1965 Statement 6 4.

The increase, over the period 1945 to 1966, of foreign direct capital investment in Canada is shown in Table 3 for various industrial sectors of the economy. It is obvious from the table that the increase in foreign dependence was again considerable, particularly in the case of the resource-based industries and manufacturing.

There can be no question that these substantial capital inflows have contributed significantly to Canada's economic performance in the post-war period. Yet this contribution must not be over-rated. It is generally agreed that economic growth is a complex process in which many factors have a role to play. To assign overwhelming importance to one factor - to the exclusion of all others - would be an error. Recent research into the question of economic growth assigns considerable importance to the human factors and to a better allocation of resources. The Watkins Report suggests that this downgrades "the relative contribution of investment in the growth process, (and) by implication reduces the importance of foreign investment in explaining economic growth" (p.56). This statement is conditioned by two others - that capital inflow may bring with it some improvement in productivity and that it may make the implementation of technical knowledge. On balance, it may be said that the capital inflow has accelerated the rate of progress, but not by much as might appear at first glance.

Finally, there is the question of the extent to which non-residents control the Canadian economy. Figures indicating the degree of ownership and control are set out in Table 4. The term "control" simply indicates that the principal owners are non-resident. Whether or not control is actually exercised by the owners is not considered. The table indicates that in many cases, foreign control is significant, and furthermore that the degree of foreign control increased significantly over the period 1954 to 1963. Such a trend must be renewed with alarm by those concerned with the future of Canadian independence.

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