CANADA'S YEAR OF ASIA PACIFIC
1997 L'ANNÉE CANADIENNE DE L'ASIE-PACIFIQUE

Asia Pacific Investment Strategy

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international

Strategy for Attracting Investment from Asia Pacific

Executive Summary

A strategy has been developed for attracting investment from the most promising economies in Asia Pacific and for encouraging strategic alliances with companies in the region, in line with the Government's investment strategy adopted in June 1996.

The strategy outlines the Government's plans to engage its Missions in Asia Pacific more thoroughly in the attraction of investment to Canada. Training of Trade Commissioners and locally-engaged staff in investment promotion techniques is planned, and investment-related calls on foreign company executives will be increased. Investment opportunities in events and activities hitherto regarded as largely trade-related will be identified and pursued. There will be wider reporting of intelligence gathered so that opportunities can be seized and early advice given to Canadian firms.

The purpose of the document is to inform other federal government departments, the provinces and municipalities and Canadian companies of these plans with a view to encouraging them to increase efforts in attracting investment from this dynamic region.

The Asia Pacific region is composed of some of the fastest-growing, diverse markets in the world. Average growth rates in the region will continue to be up to three times the OECD average and 400 million people will have OECD median incomes by 2000. By the year 2020, seven of the top ten world economies are expected to be in Asia.

Twelve economies in Asia Pacific have been studied from the point of view of potential for attracting investment, based on per capita GDP, availability of foreign exchange and general industrial sophistication. Eight of these: Japan, Hong Kong, Singapore, Taiwan, Korea, Malaysia, Australia and New Zealand are considered to be the most promising in the short term and detailed strategies have been developed for them. Short "watching briefs" are provided for Thailand, Indonesia, The Philippines and mainland China.

For each economy the paper provides investment objectives, background on the economies, a list of industrial sectors for concentrated effort, main challenges and suggestions for implementing a program of investment promotion. Annexes to the main paper cover links between trade and investment and general investment promotion techniques.

Index

Strategy for Attracting Investment from Asia Pacific

Introduction

The attraction of investment and technology from abroad has an important contribution to make to Government priorities of economic growth and job creation. 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 foreign direct investment (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. Canada had some success in the last two years in increasing FDI flows into Canada, and in 1996 FDI grew $12.4 billion to reach $180.4 billion, an 88% increase since 1986. Canadian direct investment abroad (CDIA) also registered strong growth in 1996, reaching $170.8 billion, up $10.3 billion from the previous year and some 164% since 1986. These figures provide a good illustration of the steady globalization of the Canadian economy.

However, in spite of these absolute increases, our share of global FDI has continued to decline, from 11% in the early 1980's, to 4.5% in 1995. The main reason for this is that, during the past ten years, the stock of FDI in the world increased by a factor of four from US$700 billion in 1985 to US$2,600 in 1995 - the pie has simply become so much bigger. There has also been increased competition for investment from attractive business opportunities in the developing countries of Asia and from Europe during the establishment of the common market, which have not been offset by substantial increases in investment in Canada attributable to NAFTA.

Recognizing these trends and the importance of attracting new foreign investment as a means to create jobs in Canada, the Government adopted a new investment strategy in June 1996, with the following objectives:

- Focus on the world's top five foreign direct investment (FDI) countries - U.S., U.K., Japan, Germany, and France - and Canada's eight investment priority sectors - information technology, life sciences (biotechnology, medical devices and pharmaceuticals), automotive, aerospace, agrifood, forest products, mining, and chemical & petro-chemicals;
- Give emphasis to proactive investment development in other smaller markets;
- Increase international investor confidence in Canada;
- Increase awareness of the advantages of doing business in Canada to serve the NAFTA market;
- Attract new job-bearing international investments to all regions; and
- Facilitate retention and expansion of existing investments.

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 foreign direct investment

The June 1996 strategy identified the following five elements of an effective investment program:

- International marketing of Canada's advantages as an investment site;
- Targeting and customized servicing of specific multinational enterprises (MNEs) in priority sectors, through the formation of a new unit named Investment Partnerships Canada (IPC), jointly financed by DFAIT and Industry Canada;
- Assisting an increased number of Canadian small and medium-sized enterprises (SMEs) to grow through international investment partnerships;
- Systematically identifying/dealing with the factors in Canada's investment climate of potential concern to investors;

- Forging new partnerships across the three levels of government and with the private sector to attract and retain investment in all regions of Canada.

The purpose of this paper is to adapt the above strategy not only to Japan but to other economies in Asia Pacific that are important sources of foreign investment in both the short and long term. The economies are grouped into four "Tiers" according to investment potential as follows:

Classification of Economies

main source of capital and technology and expertise in management and marketing

From the point of view of potential for attracting investment, the economies can be divided into four categories, based approximately on per capita GDP, availability of foreign exchange and general industrial sophistication. In Table I the economies are grouped according to GDP per capita and other parameters. In Tier I Japan is shown as the main source of capital and technology and expertise in management and marketing, by far the most advanced member, and the economic power house of Asia. Japan also has the largest trade and investment relationship with Canada and the greatest potential for cooperation with Canada in projects in other countries in Asia. Although Japan is in a class by itself, nevertheless Hong Kong and Singapore have been grouped with Japan in Tier I. One important feature of these three economies (and Brunei) is that their GDP per capita on a Purchasing Power Parity (PPP) basis is significantly lower than their domestic GDP; for example Japan's GDP is US$35,800, but, on a PPP basis it is only $22,000, meaning that international investments have a much higher yield than domestic investments, so Japan is more or less forced to seek investments overseas. Similarly, the other high income economies with relatively low PPP are also looking for strategic diversification opportunities overseas.

In Tier II are placed Taiwan, Korea, Australia and New Zealand whose currencies are so aligned that their domestic and PPP GDPs are more in equilibrium. So their FDI is not price driven, domestic and international opportunities have similar profit potential, and they are only seeking foreign investments for industry specific reasons.

In Tier III are placed most of the other countries of the Association of Southeast Nations (ASEAN) Thailand, Malaysia, the Philippines and Indonesia. In these cases, generally, domestic opportunities have higher yields than international ones, although some profitable conglomerates may be seeking to diversify overseas.

A decision by Thailand to float the baht in the face of sustained selling pressure resulted in a 30% drop in the value of the baht between June and September 1997. This has triggered a regional realignment that has resulted in substantial currency devaluations in neighbouring countries: the Philippines, Malaysia, Indonesia and Singapore. Governments and Central Banks in each of these countries have taken swift actions in attempts to cushion the economic impact of the devaluations and ASEAN finance ministers have agreed to adopt a common stand on currency speculation. The region is facing its first shakeout after more than a decade of unparalleled economic expansion, but it does not appear at this stage that the shakeout will take on the proportions of Mexico's crisis in 1994-95. Growth momentum in the region and internationally is still strong, inflation is contained and national governments in the region are generally in good fiscal condition. The main concern continues to be the size of current account deficits that many of these economies have been running which exposes them in the case of any weakening in their exports.

The region's current economic woes have exposed structural weaknesses that will set the stage for aggressive policy adjustments. These new measures will include faster privatization, financial reform aimed at transparency, necessary industrial restructuring and a renewed focus on competitive fundamentals such as education and infrastructure spending. Once these adjustments are made, Southeast Asian economies will emerge stronger for the exercise and rapid development will continue.

The chief mechanism for developing long term business relationships to enhance current trade relationships will be to promote Canadian direct investment abroad (CDIA) through partnerships in infrastructure projects, development of natural resources, manufacturing in those high technology sectors in which Canadā excels and in services.

Incidentally, of the 1996 cumulative total of $170.8 billion in CDIA, 70% has been invested in services (finance, insurance, retailing, services to business and government, and hospitality); the next most important sector was investment in oil and gas, representing 23%.

In Tier IV is placed China as having mostly long term potential for outward investment; per capita GDP based on purchasing power parity is about four times standard GDP per capita, meaning that there is little financial incentive to invest outside the domestic economy. CDIA has even more significance for developing long term business relationships. Even so, as private businesses and a few state enterprises accumulate capital, they are starting to invest overseas for strategic reasons.

Detailed strategies have been developed for the seven economies in Tier I and Tier II and for Malaysia, and these follow after a general summary of strategies that apply to the region as a whole. It is proposed that a "watching brief" be maintained for the three other ASEAN economies in Tier III, and capsule profiles of these have been included.

Although an investment-oriented corporate liaison program at Canadian trade missions in mainland China is recommended, the main focus should continue to be Hong Kong which China will increasingly use as a bridge to the outside world.

Table 1

	GDP (US$ bil) 1996 est.	Population (million) 1996 est.	GDP per capita (US$) 1996 est.	GDP per capita (PPP)[1] (US$)	Stock of FDI in Canada (Cdn$mil) 1995	Stock of CDIA in economy (Cdn$mil) 1995	Exp from Canada (Cdn$mil) 1995	Imp. into Canada from economy (Cdn$mil) 1995
TIER I								
Japan	4,495	125.7	35,800GNP	22,000	6,702	3,219	12,010	12,103
Hong Kong	163	6.0	27,200	23,892	2,705 (94)	1,827 (94)	1,377	1,305
Singapore	95	3.05	31,100	23,565	244	2,011	481	1,299
TIER II								
Taiwan	289	21.4	13,500	14,295	91	177	1,718.5	2,791.6
Korea	504	45.3	11,100	11,750	188	254	2,728	3,204
Australia	389	18.26	21,300	19,960	734	3,042	1,152	1,282.9
New Zealand	64	3.6	17,800	18,205	N/A	N/A	186	298
TIER III								
Thailand	190	61.2	3,100	7,535		359	574	1,014
Malaysia	93	20.6	4,500	9,470	144	137	571.2	1,549.0
Indonesia	227	199.6	1,100	3,705	N/A	1,177	647.7	597.1
Philippines	82	68.9	1,200	2,395	N/A	70	320.5	497.4
TIER IV								
China	849	1,238	690	2,935	133	338	3,383	4,638
For comparison								
Canada	570	30	18,900	22,220				
USA	7,250	266.3	26,620	26,825				
*Brunei	7.07	0.29	23,600	18,900			10	.5

* Brunei - unique, small oil-rich, not easily classified with others

1. PPP = Purchasing Power Parity

The Asia Pacific Region

The Asia Pacific region is composed of some of the fastest-growing, diverse markets in the world. As democracy, capitalism and entrepreneurship gain strongholds in many of these developing markets, hundreds of millions of middle class consumers with disposable incomes and changing lifestyles are demanding a wide range of products and services and infrastructure, previously foreign to the region. Similarly, reductions in market barriers in developed economies and changing consumer tastes are fuelling demand for "western" goods and services. According to a Japanese manufacturer of home electronics, white goods (washing machines, refrigerators etc.) can be marketed in economies with per capita GDP of US$1,000, and more expensive home electronics (colour TVs, stereos etc.) in economies with per capita GDP of US$3,000 or over. This puts Malaysia and possibly Thailand in the colour TV category and Indonesia and the Philippines knocking at the door for white goods. Of course there are wealthier groups of consumers within every developing country and India is said to have a middle class numbering over 200 million people.

Asia Pacific is, and will continue to be, the fastest growing region in the world

Many of the economies of Asia Pacific are undergoing profound social, economic and political changes. Incomes are rising, people are migrating to urban areas and travelling internationally. Economically, Asia Pacific is, and will continue to be, the fastest growing region in the world. A dramatic shift in the face of world trade will emerge as Asia Pacific increasingly becomes the most important focus of global commercial activity.

Average growth rates in the region will continue to be up to three times the OECD average and 400 million people will have OECD median incomes by 2000. In the longer term, it is forecast that the region will possess $12 trillion in new purchasing power by 2010, and by the year 2020, 7 of the top 10 world economies are expected to be in Asia. Intra-Asian trade and competition will continue to grow. Japan is currently capturing the bulk of business in the region, but the impact of off-shore Chinese entrepreneurs will increase and their influence will not be limited to China[8]. Within the ASEAN region, Singapore and Thailand will continue to position themselves as gateways for the supply of services and investment capital to China and other South East Asian markets like Vietnam. Japan will be the source of extensive investment and technology transfer throughout the region.

Canadian businesses are seizing opportunities in almost every sector throughout the region. In 1996, Canadian merchandise exports to Asia Pacific totalled more than $24 billion, accounting for almost 9% of total exports (compared with 6% to Western Europe). Canada continues to be an important exporter of resources and a significant exporter of telecommunications equipment, software, executive jets and helicopters and, a wide variety of services like tourism, education and training as well as value-added merchandise trade. Other sectors of opportunity centre around infrastructure development particularly relating to telecommunications equipment and services, financial services, energy and transport.

However, the keys to business success in Asia are presence, persistence, patience and an understanding of local business practices, and Canada has a long way to go to catch up with the rest of the G7 countries and Australia, whose exports to Asia are far higher than Canada's. According to a recent study by the Asia Pacific Foundation of Canada[14] only 600 Canadian-owned firms out of a total of 2.3 million Canadian companies maintain permanent staff in Asia. The study also points out that: "Our economic relations with some countries are long-standing...but nowhere in Asia are we a major economic presence..." Canada's strength in raw materials and components (which lack popular brand names or national identity) means "we are, in Asia, the Unknown Country."

To enhance Canadian business presence in the region, Canadian businesses must invest in the region either in terms of timely and regular visits, or through a more permanent presence, including joint-ventures and strategic alliances. To attract investment requires the same three "p's" and a determination to build deep relationships.

The Strategy

The objectives of the strategy, which follow closely the objectives and elements of the Government's 1996 Strategy, vary somewhat between economies, but the following are generally applicable:

Objectives

- To retain and increase Asian investment in Canada;
- To promote and facilitate strategic alliances between Canadian and Asian firms.
- To promote the Canadian economy as a safe investment destination for Asian capital and Canada as a good location to serve the US market under the NAFTA;
- To encourage Canadian firms to seek venture capital and partners for developing technology from appropriate Asian firms;
- To encourage both Canadian and Asian firms to cooperate in third countries, particularly in infrastructure projects in Southeast Asia.
- To promote Canadian education and corporate training services.

For each strategy, the most relevant **objectives** are re-stated; a two-page **background** on the salient features of the economy is provided, followed by a summary of the main **challenges** in developing investment linkages with Canada, then a description of those **sectors** that are most important for attracting investment, and finally, recommendations on the **implementation** of a suitable program.

Sectoral interests and linkages

Sectors that have been identified as priorities for promoting investment linkages and the licensing of technology through corporate liaison calls and missions and seminars are listed for each economy. Such investment promotion is primarily aimed at direct investment in productive facilities (manufacturing, R&D, design, mining) as opposed to investment in real estate, M&A and portfolio investment which require a different set of skills and do not have the same job creation impact.

The Asian economies will need to spend an estimated $1.5 trillion on infrastructure over the next decade. This means that there will be a huge demand for related services and equipment in **environmental technologies, telecommunications, transportation technology and construction products and services.** Many Canadian firms have strengths in these sectors and should be encouraged to pursue projects in the region, preferably in collaboration with Asian companies. Such alliances will lead to export of equipment and services, which, in turn, will cause substantial investment in the Canadian firm in order to enable it to meet increased business generated. If the additional investment needed is not within the capacity of the Canadian firm, then, very often, the foreign partner or its associates will be a prime candidate as a source of funds, technology, management skills or marketing expertise for the Canadian business.

Asian importers become more aware of Canada as a supplier of high quality food products

Canada has achieved substantial growth in exports of **processed food** over the past few years, particularly to Japan and Hong Kong. As market access barriers come down, and growing prosperity creates tastes for different foods, and Asian importers become more aware of Canada as a supplier of high quality food products, then investment prospects will proceed hand-in-hand with sales.

Several electronics firms in Japan, Korea and Taiwan are currently being approached to make investments in Canada in **semiconductor chip fabrication plants** and in the **microelectronics sector** in general including **R&D and related facilities.**

In **medical and health care products,** there are several opportunities for joint ventures to supply surgical equipment, diagnostic and detection equipment and generic pharmaceuticals, and scope for attracting firms, particularly from Japan and Korea, to develop research bases in Canada as they cannot keep up with the demand for new technologies and cost containment. There are significant opportunities for joint R&D in biotechnology, pharmaceutical compounds and in pre-clinical and clinical testing.

Canada has a comparative advantage in **education services** and demand from Asia has increased rapidly as human resource development has not been able to keep up with economic growth. The recent opening of

Canadian Education Centres in eleven cities overseas has directed significant numbers of students to Canada. For example, since the opening of a Centre in Seoul in 1993, student visa applications from Korea increased from 800 at that time to 8000 in 1996. Apart from the immediate economic benefit of enrolling students from abroad, there are long term benefits from the strong links with Canada that students develop when they are here. They often return as immigrants and investors later on.

Coordination through Sector Working Groups

working groups are being used successfully as catalysts in the promotion of international investment and trade projects

As part of this strategy, **interdepartmental working groups** will be used more extensively to guide the promotion of investment from Asia in a systematic way. This is happening in some sectors such as **semiconductors**, where a strong campaign has been launched to define Canadian interests, to encourage five or six regions in Canada to prepare suitable sites and documentation and to promote the establishment of chip fabrication plants in those regions by making representations to selected firms in Japan, Korea and Taiwan. The ad hoc working group assembled to organize the September 1996 Keidanren mission to Canada resulted in excellent programs to present business opportunities in **processed food** and **information technologies.** The success of that mission has resulted in follow-up activities such as visits of sector specific journalists and the arrangement of seminars in Canada and Japan and much closer liaison with regional offices, provinces, municipalities and sectoral associations.

Similarly, working groups are being used successfully as catalysts in the promotion of international investment and trade projects in **aerospace, automotive parts, life sciences** and **mining.**

Implementation

Implementation involves fulfilling the objectives and meeting the key challenges for each country through a systematic program of events and activities. A **corporate liaison program** is the cornerstone of the investment development program at each Canadian mission abroad, supplemented by "back-to-back" visits to subsidiaries in Canada (and, in the case of Japan at least, visits to regional controlling offices in the USA).

The Corporate Liaison Program consists of formal meetings between Heads of Mission or senior staff at Canadian posts abroad and executives of foreign companies. An effective corporate liaison program for a country like Japan, that already has many subsidiaries in Canada, includes calls on Canadian (or North American) affiliates of foreign companies followed by calls on head offices in the home country using the information and intelligence gathered from the subsidiary. The objectives are to develop a dialogue with selected firms in order to: gather intelligence on the company's investment plans; gauge their interest in and knowledge of Canada; uncover perceived barriers to investing in and doing business with Canada; provide information on Canada to facilitate investments and business partnerships; and influence their views on Canada and important Canadian policy positions. The program also helps to develop long-term relationships with these companies before an investment decision is imminent.

Another feature of the strategy is the addition of investment-related responsibilities to some Trade Commissioners and Commercial Officers in sectors related to investment targets. For example, in Hong Kong, officers currently handling trade in textiles/clothing, high technology products, life sciences, agri-food, and natural resources will receive training in investment promotion techniques and spend more time soliciting investment in their sectors.

Support from the headquarters of DFAIT and Industry Canada in the form of timely and current literature, success stories, newsletters, sectoral investment promotional kits, the servicing of investor enquiries, the development of training courses, cooperation with other government departments, the provinces and the private sector is also an essential component of the strategy. Recent successful examples include food projects with Agriculture and Agri-Food Canada (AAFC), mining seminars with Natural Resources Canada (NRCan), cooperation with the Industrial Research Assistance Program (IRAP) of the National Research Council (NRC), the Medical Research Council etc. Industrial Commissioners from Canadian municipalities are also an essential component of the strategy and

presentations on international investment opportunities by the Department to the annual meetings of the Economic Developers' Association of Canada (EDAC) have been held for the past two years.
These activities complement the work being done by Investment Partnerships Canada (IPC), which is focusing on corporate liaison with selected major MNEs in five countries, including Japan. The appointment of Deputy Ministers as "Country Champions" for these countries is also strengthening relationships with major investors and provides a mechanism for them to discuss opportunities and concerns with senior levels of the Government.

Investment promotion techniques are described in Annex II, where they are presented as a "menu" from which to choose activities geared to any particular investment campaign. The techniques cover broadly based or generic promotion, targeted campaigns, partnering and match-making services, servicing investment enquiries and long term factors influencing investment such as education, immigration and research and development.

Links between trade and investment are outlined in Annex I in an attempt to explain how these forces and the actions of trans-national companies are contributing to globalization trends.

Strategies for Eight Key Economies

Strategy for Promoting Investment and Strategic Alliances with Japan

Objectives

- To attract Japanese direct investment to Canada;
- To facilitate the retention and expansion of major existing investments;
- To increase Japanese investors' confidence in Canada and their awareness of the advantages of doing business in Canada;
- To promote Canada's excellence in R&D and to entice Japanese companies to invest in and conduct research in Canada; and
- To encourage both Canadian and Japanese firms to cooperate in third countries, particularly in infrastructure projects in Southeast Asia.

Background

Japan's Global Influence

- In 1996 Japan's GDP was $5.7 trillion, accounting for about 20% of global economic output and more than half of total Asian GDP. The OECD projects that economic growth in Japan over the period

1997-2000 will likely average 2.5-3.5%. Its foreign exchange reserves exceeded $290 billion in 1996, the world's largest. As a result, Japan remains a leading source of portfolio and direct foreign investment, with total overseas assets in excess of $1.3 trillion.

- Japan is the world's third-largest trader (after the 15-member EU and the USA), accounting for 9.5% of world merchandise trade by value, and 5% of world service trade (1996). Japan's import market is growing faster than GDP growth. Import penetration increased 7.5% last year over 1995 and has nearly doubled in the last decade. During the same period, the proportion of manufactured imports has increased from 40% to 60%, while resource products have declined from 60% to 40%.

Japan's domestic economy is now a major engine of global economic demand

- Japan's domestic economy is now a major engine of global economic demand, with imports of goods and services continuing to expand at a rate well ahead of economic growth overall. Domestic deregulation and increasing consumer sophistication continue to boost imports of value added goods. In spite of recent depreciation of the yen, which fell 20.7% between April 1995 and July 1996, the period from September 1985 to December 1996 saw a 47.1% appreciation against the US dollar. Thus, structural economic change in Japan continues to promote outflows of investment and technology from Japan's leading-edge export-oriented manufacturing industries to production facilities in Asia, North America and Europe. Japan's economic future remains intimately entwined with that of the global economy - and vice versa.

Outlook to 2000

- To boost domestic productivity and living standards in the future, Japan will require high levels of capital and R&D investment, continued deregulation (especially in its weakly competitive service sectors) and further trade liberalization. Japan will seek to promote improved economic efficiency through regulatory reform and to stimulate the growth of new industries though enhanced R&D investments. Political sensitivities will impede change in some sectors, but structural economic change will continue with or without government intervention.

- High costs and structural inefficiencies in Japan's domestic manufacturing and services sectors, plus a volatile yen/dollar rate, will promote the further expansion of international manufacturing operations of Japanese multinationals, a major engine of globalization. The growing internationalization of Japanese companies will also continue as, even after a decade of strong overseas investment flows, only 9.1% of the production of Japanese firms is done outside of Japan, compared with 26% of the production of American multinationals or 23% of the production of German companies.

Canada's interests

- In 1996, Canada supplied some $11.2 billion worth of goods to Japan (4% of total Canadian exports). Structural economic change in Japan, along with the implementation of deregulation and other policy measures aimed at increasing productivity, will continue to improve access and create significant new market opportunities for competitive Canadian exporters in a wide range of sectors, including agri-food, housing, medical equipment, information technologies, financial services and tourism. As exports increase, it will become necessary to invest to expand Canadian production to meet market demands.

- 16.7 million Japanese travelled overseas in 1996. That number is expected to increase to 18 million in 1997 and 20 million in 2000. Japan is now the second largest source of overseas tourists to Canada, after the U.K., but is the largest source of overseas tourism revenue. The Canadian Tourism Commission expects 1.145 million Japanese visitors to travel to Canada in 2000, rising to 1.5 annual visitors in 2005.

- Japan is a prime source of direct investment in Canada with a cumulative value of $6.5 billion. (Canadian BOP figures; Japanese Ministry of Finance statistics put the amount at over $12 billion.) There are now over 400 Japanese-affiliated companies in Canada in over 700 locations employing about 50,000 people. Japan also remains Canada's second largest source of portfolio investment (estimated at $43.5 billion as of March, 1996). Japanese multinationals will continue to expand direct investment and transfers of technology to serve an increasingly integrated North American market. As Japanese businesses embrace the logic of North American economic integration, Canada faces a continuing challenge to promote recognition of the advantages (including lower production costs) of serving North American and global markets from Canada.

Challenges

Our main challenges in developing investment linkages with Japan are to:

- increase the awareness of Japanese investors of the industrial sophistication and competitiveness of Canada;
- demonstrate that we can offer a comparative advantage through better technology, a more productive labour force, an adequate infrastructure and a favourable overall investment climate;
- encourage Canadian firms to seek investment and technology from appropriate Japanese firms;
- Encourage the use of Canada as a base for manufacturing, research and regional operations to serve NAFTA markets;
- identify opportunities for business alliances, such as joint ventures, licensing agreements, that can increase exports and investment; and
- encourage both Canadian and Japanese firms to cooperate in third countries, particularly in infrastructure projects in Southeast Asia.

Sectoral interests

Japanese technical competence and commercial sophistication are so wide-ranging that there are many opportunities for attracting investment to Canada in many fields. However, sectors that have been identified as immediate priorities for investment include: information technologies (telecom, software, broadband\information highway, internet related, semi-conductors), life sciences (pharmaceuticals, medical devices, biotechnology), automotive equipment, processed food, mining and manufactured housing and components.

Implementation

Current investment development program

There has been a strong investment development program in the Canadian Embassy in Tokyo over the past ten years; it has gradually changed from general "open for business" seminars and missions designed to inform the Japanese about the strength of our economy and technical capabilities, to campaigns focused on sectors and an emphasis on corporate liaison activities. In the past year, the Investment Promotion Section of the Embassy, which has two Canadian investment specialists and one locally-engaged officer, has visited 139 clients in Japan and helped about 2000 business visitors to and from Canada; it assisted in the organization of 26 fairs and missions and 33 conferences, seminars and other events; and it handled over 200 investment enquiries and requests for service. Other sectoral specialists in the Commercial Section spend some of their time promoting investment, particularly in projects related to the automotive sector, processed food, manufactured housing, information technology, pharmaceuticals and science and technology.

there are many opportunities for attracting investment to Canada in many fields

In Osaka the investment program has been less systematic and more event or project driven often providing a forum for events that have first been staged in Tokyo. However, there is huge, untapped potential, as clearly the Kansai is a major source of investment in Canada, and the Consulate General has access to many influential corporate executives whose companies, many of which started business near Osaka, have substantial operations in the region. During the past two years the Kansai Canada West Business Forum has proved a most successful networking conference for developing business contacts.

The successful September 1996 Keidanren Business Partnerships Mission to Canada was an initiative of the Canadian Embassy in Tokyo. Follow-up activities related to information technologies and processed food, sectors on which the mission focused, are maintaining the momentum of interest generated by the mission.

Future programs

Future programs should continue to enhance Canada's visibility and will involve:

(1) Systematic follow-up on sectoral activities undertaken in the last two years including closer linkages to the Canada Japan Business Committee (CJBC); regular media visits, a processed food seminar; a hog breeding investment seminar; repeat visits to Canada by companies and individuals that took part in the September 1996 Keidanren mission to Canada; and using the Keidanren report on company calls.

(2) Working closely with Investment Partnerships Canada as part of the corporate liaison program, targeting MNE's to secure high profile strategic investments in key sectors and integrating these activities with the Deputy Ministers' "Country Champion" program which has senior government officials call on leading firms.

(3) Positioning Canada as a global player in the semiconductor field; ensuring that Canada is considered by Japanese semiconductor manufacturers in their medium/long-term investment plans; and facilitating decision-making of these firms.

(4) Promotion of Canada as an R&D location, particularly in life sciences, semiconductors, information technologies and processed food and in fields such as neuroscience and the marine environment where Japan has large projects with huge budgets and is seeking international cooperation.

(5) Introducing Japanese venture capital companies to Canadian high tech and venture capital firms as a means of growing these Canadian firms and leading them into expanding markets in Japan and the rest of Asia; this activity should include some of the relatively new venture capital divisions of major trading companies and large multinationals including the steel companies and NTT (Nippon Telegraph and Telephone Corporation).

(6) Maintaining a targeted sectoral promotion program focusing on life sciences, processed food, information technologies, housing and building components, automotive and automotive parts, and possibly on tourism infrastructure given projected movements from Japan. This program would continue the series of media visits to ensure regular and in-depth coverage of these Canadian sectors.

While seminars and roundtables should be organized periodically in processed food, manufactured housing, automotive parts, mining etc., an active, targeted corporate liaison program with renewed emphasis on existing and potential investors identified as a result of past initiatives and ongoing research and market intelligence gathering will remain the cornerstone of the program. This program will be supplemented by systematic "back-to-back" corporate liaison in Canada aimed at existing investors. Ongoing restructuring in an increasing number of large Japanese corporations has translated into greater empowerment of their North American-based operations. This means that increasingly, corporate liaison can be effectively carried out with Japanese companies based in New York or other locations in the U.S. It will also be important to analyze the export pattern of large Japanese exporters to Canada, to make a survey of large users of electric power and to explore additional investment possibilities in sectors identified.

Strategy for Promoting Investment and Strategic Alliances with Hong Kong

Objectives

- To promote Canada as the attractive **low cost** choice for expansion or partial re-location to the North American market under the **North American Free Trade Agreement (NAFTA)**, for high-value manufacturing operations, data-processing operations and North American regional offices.

- To promote Canadian **technologies** that are appropriate to the Hong Kong/China market, and encourage equity investments and/or formation of alliances to tap the Hong Kong/China market.

- To encourage value added manufacturing investment in Canada, based on natural resources.

- To encourage Canadian companies to contract some **research**, development and commercialization of Canadian **technology** to Hong Kong research institutions, and thereby establish an immediate window on the Hong Kong/China market.

- To identify opportunities in the **textiles and garment** industry, which are facing difficulties due to cost structure and government restrictions such as quotas and licenses.

- To promote partnership of Canadian companies with Hong Kong based companies to undertake **business, infrastructure projects in 3rd countries,** particularly in China and Southeast Asia.

Background

Hong Kong became a Special Administrative Region of China on July 1 1997. As a result:

- China will increasingly use Hong Kong as a bridge to the outside world - giving Hong Kong a unique role in bringing technology to China and in assisting mainland companies to expand into North America.

- Companies and individuals from Hong Kong and China are interested in diversifying investment abroad to politically safe and economically vibrant countries.

- Hong Kong is one of the most expensive cities for business, and Canada can be promoted as a less expensive site for high value added operations to help companies reduce costs.

Economically, Hong Kong is already very much integrated with China : Hong Kong manufacturing companies employ four million workers in China, and Hong Kong's financial services sector continues to facilitate China's overseas fund-raising activities via Hong Kong's equity and debt markets. There are 1,750 mainland window companies in Hong Kong. Average **real GDP growth** rate has been 6.5%, and is projected to be 5% in real terms between now and 1999.
Trade between Hong Kong and China, which has grown at 30% per annum since 1978, accounted for 35% of Hong Kong's total trade (US$127 billion) in 1995. China's second largest trading partner is Hong Kong (after Japan) accounting for 16% of China's total trade. Hong Kong is responsible for about 60% of total **investments** in China. These investments employ over 4 million workers, more than 10 times Hong Kong's own manufacturing workforce.

Despite the relocation of much of Hong Kong's manufacturing operations to South China where land and labour are cheap, high value-added manufacturing and service functions such as R & D, product design, material and component sourcing and marketing are maintained in Hong Kong - as a result, China has a **convenient window to western manufacturing and services technology.**
The Hong Kong government is keen to retain a high value-added manufacturing sector in Hong Kong, and strongly supports technology upgrade through the Hong Kong Productivity Council, Hong Kong Industrial Technology Centre Corporation, and other organizations.

a unique role in bringing technology to China and in assisting mainland companies to expand into North America

Hong Kong has a large representation of international banks: 85% of the world's 100 largest banks have a presence. It is the 5th largest foreign exchange centre with daily turnover of US$90 billion. Hong Kong is also widely recognised as the leading fund management centre in Asia with the largest concentration of fund managers. Total assets under management were US$94.2 billion at the end of 1995, of which 71% was sourced from overseas clients. **Investment related to financial services technology would be of interest.**

Hong Kong is also **important to China as its major fund raising centre.** At the end of 1996, 23 Chinese state-owned enterprises were listed in Hong Kong, commonly known as H-shares, raising a total of more than US$3.5 billion.

Hong Kong is also widely recognised as the leading **fund management** centre in Asia with the largest concentration of fund managers; total assets under management was US$94.2 billion at the end of 1995, of which 71% were sourced from overseas clients. Hong Kong is the second largest **venture capital centre** in Asia after Japan, managing 13.7% of the total capital pool in the region. For the period 1990 to 1995, total capital under management by Hong Kong venture capital firms has risen by 170% from US$1.7 billion to US$4.6 billion.

However, **the investments managed out of the Hong Kong offices are projects that are based in the Asian region;** the venture capitalists in Hong Kong are unlikely to invest in specific hi-tech companies which do not have an interest in the Asian market.

There are presently 500,000 Canadians of Hong Kong origin living in Canada, mainly in metropolitan Toronto and Vancouver. Over 100,000 Canadian citizens, meanwhile, are residents in Hong Kong - a significant foreign presence in the territory. There are about 15,000 Hong Kong students in Canada. These **people connections** often make it easier to gain access to potential investor groups. Competition from investment promotion groups from other countries such as Australia, the United States and the United Kingdom is keen.

There are presently 500,000 Canadians of Hong Kong origin living in Canada

According to Statistics Canada, Hong Kong direct investment in Canada has reached C$5.7 billion, much of which has been associated with immigration. The actual figure is undoubtedly much more than this because of investments channelled through family members who are now Canadian citizens. Investments from the territory range from electronics, textiles (e.g., garment labels and denim plant in New Brunswick), telecommunications, plastics, oil and gas (Husky, Numac) and real estate. Canadian direct investment in Hong Kong was C$2.5 billion. Interest in these sectors will continue, and given the China connection - food processing and life sciences will also have potential.

The Asian economies are expected to spend US$1.5 trillion in **infrastructure** from 1994-2004. Many of these projects will be financed through Hong Kong.

Sectoral Initiatives

- **Information technologies, telecommunications, food processing, healthcare:** strategic alliances will enable Hong Kong/Canadian partnerships to access technology to tap the Hong Kong/China market;

- **Textiles:** This industry faces high cost and quota restrictions in target markets, resulting in recent trends to establish production in Canada, the USA and Mexico. By setting up inside NAFTA to circumvent these quotas, companies have also benefited from lower costs, including lower freight, and from being closer to customers and being able to offer quick response times to fashion trends and demand;

- **Tourism facilities** - of interest to many major Hong Kong investors, who are familiar with real estate investments;

- **Forestry** - Value-added wood products, pulp and paper; to gain access to supply in Canada;

- **North American regional offices** for data processing centres, product developing centres, R & D Centres - to reduce operational costs, which are high in Hong Kong.

Challenges

The main challenges are to overcome a number of arguments often heard on why **not** to invest in Canada, namely:

- It's difficult to build a profitable business in Canada, margins are considered low.

- The tax system in Canada is complicated and a burden to business.

- Cost of doing business is high, compared to the United States.

- There are few investment opportunities in Canada - the lack of well-known brand name consumer goods makes it harder for investors to identify with successful companies.

- Venture capitalists stationed in Hong Kong manage invested companies that are based in Asia and it is not their mandate to invest beyond Asia.

- Canadian companies visit Hong Kong from time to time but often lack a long term commitment.

Implementation

The already vigorous investment promotion program should continue with the following main elements:

- **A team approach** which involves senior Post management and sector commercial officers, for systematic **Corporate Liaison** visits to influential Hong Kong entrepreneurs, building on the people linkages of Chinese Canadians and graduates from Canadian universities.

- Work with **industry associations** in Hong Kong and Canada to encourage the formation of alliances, taking advantage of support from the Hong Kong government through such organizations as the Hong Kong Productivity Council and the Industrial Technology Centre.

- Promote **business events/conferences** that are held in Canada to encourage visits to Canada and exchanges of ideas. Invite influential Hong Kong business people to speak at Canadian conferences. In line with the above, inform Canadian business of Hong Kong business events. Encourage **Canadian speakers at Hong Kong fora** to broadcast Canadian success stories.

- Work closely with investment promotion groups in Canada including Industry Canada, Agriculture and Agri-Food Canada, the National Research Council and regional government agencies.

- Promote large cities such as Toronto, Calgary, Vancouver, as low cost locations for North American headquarters, and regional data processing centres.

- Provide **efficient investment services** to selective sectors.

- Work with **venture capital fund managers** in Canada to identify companies that have the right technology and track record, introducing them to Hong Kong venture capital groups and industry-specific investors.

- Invite **media** representatives from key Asian cities to tour Canada to view first-hand Canadian business strengths.

- Co-ordinate the strategy with **economic development officers** from municipal, regional and provincial levels in Canada.

Strategy for Promoting Investment and Strategic Alliances with Singapore

Objectives

- To encourage Canadian firms to seek venture capital and partners for developing technology from appropriate Singaporean firms;

- To promote to Canadian firms the concept of the centrality of Singapore as a regional hub and as a locus for Canadian activity in the Southeast Asian region;

- To promote the Canadian economy as a safe investment destination for Singaporean capital and the advantages of serving the US market under the NAFTA

- To encourage Canadian organizations to develop collaborative research and technology development activities with Singaporean counterparts.

Singapore has had three decades of almost uninterrupted economic growth

Background

Since independence in 1965, Singapore has had three decades of almost uninterrupted economic growth, with GDP growth averaging 7% a year in real terms in the 1980s, 10.2% in 1994 and 8.9% in 1995. The strong manufacturing sector accounts for 27% of GDP, but this has now been surpassed by the financial and business services sector at 29% of GDP. The Singapore dollar has withstood the shockwaves emanating from Thailand's recent devaluation better than other regional currencies (down approximately 6% against the US dollar) and, given Singapore's huge foreign currency reserves, the limited internationalization of the currency and its impeccable economic fundamentals, it is unlikely to face dramatic pressures.

Singapore's success on the international trade scene is based on its central geographic location in southeast Asia and its traditional function as an entrepôt for the region; this success has been bolstered by Singapore's political stability, its well-developed infrastructure, world class communications system, and its educated and English-speaking workforce. This success has been based largely on its ability to attract foreign investment; in the mid 1960s it was one of the few countries in the region that courted foreign investors assiduously and allowed them to set up wholly owned subsidiaries. The Government has also taken pains to ensure that the business environment was characterized by transparent, predictable rules.

considerable scope for innovative firms to obtain venture capital from Singapore

Singapore has also benefited from betting heavily on the electronics industry[22], starting in the mid-1960s with two local firms assembling black-and-white TV sets under licence from Japanese consumer electronics firms. Since then the industry has grown rapidly keeping in step with all the latest developments, graduating into computers and peripherals, disk drives, computer tapes and semiconductors. Electronics is still Singapore's most important manufacturing industry, accounting for 36% of manufacturing value-added, 58% of non-oil exports, employing 25% of the workforce in manufacturing and contributing 12% to the island's GDP.

The Government is now encouraging outward investment and Canada can benefit most from this by forging alliances with Singapore firms for sharing risks and technology and for access to world markets. There is also considerable scope for innovative firms to obtain venture capital from Singapore, particularly if deals can incorporate marketing arrangements in the areas in which Singapore has the greatest influence and interest, namely Indonesia, Malaysia, Thailand, Hong Kong and China.

Canada's stock of FDI in Singapore stood at C$2 billion in 1995, reflecting the establishment of more than 70 Canadian organizations in Singapore, including a number of banks and insurance companies. Much of this investment is in the financial sector and in the form of regional offices rather than in manufacturing facilities. Canadian companies are also represented in Singapore through more than 200 agents and distributors.

Singapore is a strong regional investor. The government alone has an incremental $10 billion a year to invest, with a preference for investing in the nearest regional economies; the Economic Development Board estimates that up to 30% of Singapore's reserves will eventually be invested in regional economies. Singapore is the fifth largest investor in China, the fifth in Indonesia, the sixth in Vietnam. Singapore is also positioning itself as the centre of a dynamic, rapidly developing Asia, serving as a base for sourcing, training, communications and financial services.

Sectoral interests and linkages

Sectors that have been identified as priorities for promoting investment linkages and the licensing of technology through corporate liaison calls and missions and seminars include:

- **Environmental technologies,** particularly in sewage treatment, hazardous and solid waste disposal and in the monitoring and control of air and water pollution.

- **Information technology and electronics,** particularly products and systems supporting the development of the National Information Infrastructure (NII), the Government's "Vision of an intelligent island". This is embodied in Singapore ONE, a huge bandwidth system designed to carry multimedia to homes, industry and educational institutions (see http://www.ncb.gov.sg/ncb/sone.asp). Singapore ONE is intended to incorporate IT in every aspect of the nation's social and economic life through a seamless integration with private networks. Design and manufacturing capacities include wireless communication systems, personal mobile communication equipment, optical fibre network components, digital signal processing technologies, asynchronous transfer switches, software etc.

- **Agri-food:** key opportunities exist for attracting investment into products with high export potential such as meat products, high value-added food, animal feeds, canola oil, turkey breeding and technology transfer.

- **Aerospace:** the industry in Singapore, with 80 companies and 10,000 workers, is the most advanced in Asia.

- **Oil and gas equipment and services:** Singapore continues to serve as the offshore supply base for much of the exploration and development activity in

Southeast Asia, and it has a large and expanding oil refining and petrochemical industry.

- **Defence products:** there are opportunities in training equipment and new and technically advanced equipment as well as sophisticated security end products for both military and civilian applications. The Singapore government encourages foreign manufacturers to set up joint ventures for the production of high technology defence products.

- **Professional services:** there are opportunities particularly in the medical services and health care industries. Regional health care, providing "western" facilities and practices has been identified as a priority by Singapore. Canada has the technical and human resources to pursue regional opportunities.

Challenges

The main challenges in developing investment linkages with Singapore are to:

- increase the awareness of Singaporean investors of the industrial sophistication and competitiveness of Canada;

- encourage Canadian firms to seek venture financing and strategic partners with technology based Singaporean firms;

- identify opportunities for business alliances, such as joint ventures, licensing agreements, that can increase Canadian exports not only to Singapore, but also to Southeast Asia, particularly to Malaysia, Indonesia and China;

- target growing investment opportunities in and through Singapore to regional activities with dedicated resources.

- promote Canada as a gateway for manufacturing, research and sales to the NAFTA market;

- find better ways to network, profile and share information on regional opportunities by finding partners and links (e.g., through Business Associations) in Singapore offering greater access to the region and to third markets.

Implementation

An investment and partnering program should be developed and have the following main elements:

- Corporate liaison visits to influential Singaporeans exploiting the access and influence of the Canadian High Commission;

- Focus on the development of investor relations and servicing elements at the post, this can be achieved by integrating investment themes into events such as business seminars, or major trade/technology fairs. In order for this to be successful, it is essential that companies be prepared to commit resources to allow frequent visits to Singapore to build relationships and provide private sector substance to investment activities within trade and technology fairs;

- Introducing Singaporean venture finance companies to Canadian high tech and venture finance firms as a means of acquiring growth capital and encouraging market penetration in Southeast Asia. Singapore's venture capital community offers ready access to equity funds for regional ventures to support collaborative product and service adaptation to Asian markets;

- Encouraging visits to Canada by Singaporean journalists either independently or in conjunction with other initiatives such as investment or trade missions;

Regional health care, providing "western" facilities and practices has been identified as a priority by Singapore

Strategy for Promoting Investment and Strategic Alliances with Korea

Objectives

- To promote the Canadian economy as a safe investment destination for Korean capital and Canada as a good location to serve the US market under the NAFTA;

- To promote Canadian high technology companies as potential candidates for joint technology development, strategic alliances and technology transfer arrangements;
- To promote Canada as a site for the semiconductor industry;
- To promote Canadian expertise in infrastructure development for use in Korea and, through partnerships with Korean firms, in third countries by providing principal contractors with specialty products and services;
- To promote Canadian education and corporate training services.

Canada has become an increasingly popular tourist destination for Koreans

Background

Canada's trade relationship with the Republic of Korea continues to gain momentum. When two-way trade reached almost $6 billion in 1995, Korea was Canada's third most important export destination in the Asia Pacific region and sixth largest export market in the world. Canadian exports rose by 24.2 per cent in 1995 to $2.7 billion — their highest level ever. Imports from Korea increased 28 per cent over the previous year to $3.2 billion. We anticipate that two-way trade will continue to expand.

Major Canadian exports to Korea include coal and mineral fuels, pulp, organic chemicals, grains and cereals, aluminum products, paper, iron and steel, fertilizers, energy equipment, telecommunications equipment and aerospace products.

Major Canadian imports from Korea include electronic equipment (computers,televisions, VCRs), vehicles and parts, clothing, footwear and textile products, steel, plastics, chemicals, tools and machinery.

The Korean market presents growing opportunities in areas of Canadian expertise, including agricultural products, oil and petrochemicals, transportation, defence, aerospace, computers, electronics, telecommunications, biotechnology, manufacturing technology, new materials and automotive parts and components.

The Korean telecommunications market alone is currently valued at about $4 billion and is expected to be worth more than $16 billion by the end of the century. The agricultural products' market, which comprises mainly grains and oilseeds, meat, fish and a range of processed food products (including beverages) is currently worth an estimated $10 billion. With virtually no raw materials and a large industrial base, Korea is also a significant market for coal, aluminum, stainless steel, potash and a wide variety of ferrous and non-ferrous ores — markets Canada is well-positioned to supply. To serve its rapidly growing economy, Korea's electrical generating capacity is expanding by approximately 20 per cent a year upon a base capacity that is greater than that of Ontario Hydro. Canada has supplied four nuclear units to Korea through Atomic Energy of Canada Limited.

The Canada-Korea Business Council is Canada's only national business organization with a specific focus on Korea. The CKBC will play a major role in developing industrial and technological cooperation with Korea.

Tourism

Canada has become an increasingly popular tourist destination for Koreans. In 1994, the number of Korean visitors to Canada rose by 95 per cent over the previous year to over 78,000 travellers.

Investment

Despite recent fluctuations, international investment between Canada and Korea remains an important facet of our trade relationship. Direct investment flows from Canada to Korea, valued at $166 million, eased somewhat in 1994 (3.8% growth) after recording a phenomenal jump to a level of $160 million in 1993 (79.8% growth). This is consistent with the trend of the past ten years, where the share of investment from Canada to Korea as a proportion of total direct investment in the Pacific Rim area has increased three-fold.

The same is not true, however, when it comes to Korean direct investment in Canada. After recording a cyclical peak in 1990 of $312 million, there was a dramatic drop in direct investment flows which led to an actual divestiture of Korean-held Canadian assets in 1993. While there are signs that Korean investment is once again picking up in tandem with the domestic business cycle, present flows in no way rival those of the last Canadian economic expansion.

The government of South Korea has undertaken to ease the restrictions on overseas investment by Korean companies. By reducing the volume of net capital inflows, South Korea hopes to avoid excessive upward pressure on the exchange rate as well as allowing better management of the money supply.
Korean business groups are fast becoming "big-league" investors throughout the world. Korean firms more than doubled their FDI overseas from US$1.8 billion to over US$4 billion in 1994.

Korean investment abroad is driven by the need to acquire the advanced technology necessary for further economic growth, an objective which is increasingly difficult to realize as many advanced nations are reluctant to share such technology with potential competitors. While many Korean firms seek to meet this goal by forming strategic alliances with overseas partners, an increasingly popular tactic is the outright purchase of foreign firms. A further imperative for Korea's overseas investment is securing a steady supply of raw materials.

Canada is well situated to meet these dual requirements. Not only does Canada have an abundance of natural resources and ample energy reserves, but also recent governments have taken steps to foster a business atmosphere that is conducive to profitable foreign investment. An improved performance in maintaining low rates of inflation as well as gains made in the areas of productivity and unit labour costs have combined to start the Canadian economy upon a sustainable economic expansion. Moreover, in key "sunrise" industries such as telecommunications, biotechnology and aerospace engineering, Canadian firms are regarded as world leaders. The opportunities for strategic alliances between Canadian and Korean firms offer tangible economic and technological benefits to both sides.

In order to take advantage of this potential investment boom - and in some sense, to regain the ground lost since 1990 - the Department of Foreign Affairs and International Trade and the Korea Development Bank signed in February 1995 a memorandum of Understanding (MOU) on International Investment under the auspices of the Special Partnership initiative between the two countries. Under this MOU, both sides undertake to exchange information and to identify investment opportunities of benefit to both Canadian and Korean firms.

In 1994 the Korean government established a Taskforce on Promoting Foreign Direct Investment. The Korean government is making efforts to induce foreign investments in specific areas. Since strategic high-tech development is essential for its structural adjustment, Korea is seeking ways to introduce these technologies, which Korean companies are not able to develop themselves. Free foreign investment zones are being established. Since Korea joined the OECD in 1996, it is expected that the Korean government will strive to adapt its investment environment in order to be compatible with OECD criteria.

Canada's people-to-people links with Korea are growing, with substantial increases in tourism, education and immigration. In 1994, Canada removed visitor visa restrictions on Korean nationals. This was followed by Air Canada establishing regular direct service from Toronto and Vancouver to Korea. These measures have resulted in rapid increases in visitors to 112,000 in 1995 and another large increase in 1996. Recruitment of Korean students to Canada has also increased rapidly since the creation of a Canadian Education Centre (CEC) in Seoul in 1993. Student visa applications have increased from 880 at that time to 9000 in 1996, and over 15,000 Korean students are currently studying in Canada. There has also been increased activity in Korean executives attending management courses here.

Korean investment abroad is driven by the need to acquire the advanced technology necessary for further economic growth

Sectoral interests and linkages

Sectors that have been identified as priorities for promoting investment linkages through corporate liaison calls and missions and seminars include:

- **Environmental technologies**, particularly in sewage treatment, solid waste disposal, air and water pollution monitoring and control, coastal zone management and nuclear pollution control.

- **Telecommunications equipment and services**, particularly in value added networks and services, satellite communications, wireless communication, cable TV, broadcasting programming and equipment and geomatics.

- **Semiconductors:** Several Korean electronics firms are currently being approached to make investments in Canada in memory chip fabrication plants. Such corporate liaison activity can generate real opportunities in both trade and investment in this sector.

- **Medical and health care products** continue to enjoy rapid expansion. There are good opportunities for joint ventures to supply the Korean market for surgical equipment, diagnostic and detection equipment and generic pharmaceuticals. There is scope for attracting Korean firms to develop research bases in Canada as they cannot keep up with the demand for new technologies and cost containment.

There are over 15,000 Korean students currently studying in Canada

- **Biotechnology:** The Korean government has identified biotechnology as a key technology and is financing R&D and seeking technology overseas. There is scope for Canadian firms to promote their technology in Korea and to make the case for investing in Canada.

- **Natural resources:** There have been investments in coal and zinc mining in Canada but there is considerably more scope for encouraging Korean investors into Canada's resource sector, not only to secure sources of supply but also to develop mines and processing plants to serve third country markets.

- **Agri-food:** Canada has achieved substantial growth in exports over the past few years. As market access barriers come down and Koreans become more aware of Canada as a supplier of high quality food products, then investment prospects will proceed hand-in-hand with sales as the close business relationships essential for doing business with Koreans develop. There is also room for Koreans to invest in food production in Canada based on land and processing facilities.

- **Education:** There are over 15,000 Korean students currently studying in Canada. On average, they spend $30,000 dollars each per year in Canada, injecting about C$450 million into the Canadian economy. Apart from the immediate benefit to our economy, this has long term significance for investment in Canada, as former students move into managerial positions in business while maintaining links to Canada.

- **Tourism:** There is scope for attracting Korean investment into hotels and resorts, particularly those associated with sports and outdoor activities.

Challenges

Our main challenges are to:

- increase the awareness of Korean investors of the industrial sophistication of Canada which is comparable to the USA and Europe;

- demonstrate that we can offer a comparative advantage through better technology, a more productive labour force, an adequate infrastructure and a favourable overall investment climate;

- create and maintain a high level of business interest in Canada as a competitive investment location;

- identify opportunities for business alliances, such as joint ventures and licensing agreements that can increase exports and investment and cooperation in third countries.

Implementation

Korean investment in Canada over the years has centred around the natural resources and manufacturing sectors. Highly-publicized failures by Hyundai and Sammi have not been helpful to those promoting the advantages of Canada as a safe investment location in North America. In this context, key components of the Canadian Embassy's investment program will continue to include:

- use of high-level visits and meetings (in Korea and in Canada) to promote Canadian investment and business opportunities;

- wide promotion of Canada as a site for the semiconductor industry;

- introduction of Korean chaebols to Canadian high tech firms and to those with expertise in infrastructure development (e.g., mass rapid transit, environmental services) as a means of assisting growing Canadian firms by leading them into expanding markets in Korea and the rest of Asia;

- translation of all promotional materials into the Korean language.

Strategy for Promoting Investment and Strategic Alliances with Taiwan

Objectives

- To promote the Canadian economy as a safe investment destination for Taiwanese capital and Canada as a good location to expand Taiwanese business interests, especially to serve the US market under the NAFTA

- To encourage Canadian high technology companies to seek Taiwanese venture capital and partners for joint technology development and marketing in Taiwan and Southeast Asia

- To promote Canadian expertise in infrastructure development, particularly in the mass rapid transit, aviation and telecommunications sectors, including cooperative projects in third countries; and

- To promote Canadian education and corporate training services.

Background

Taiwan's economy continues to grow rapidly through diversification, technology development and strategic offshore investment. Taiwan, because of its large reserves of foreign exchange (US$92 billion at the end of 1995) continues to be a potentially important source of venture capital for high technology businesses and natural resources, and also a source of entrepreneurial immigration.

Modern Taiwan faces three challenges: managing its complex relations with the emerging superpower mainland China; consolidating democratic reforms and practices; and transforming a successful export-oriented manufacturing powerhouse into a high tech and value-added post-industrial economy.

Taiwan's economic miracle has turned a largely agrarian society into an industrial one in the space of one generation. Its population of 21.3 million has an annual per capita income of US$14,000. Economic growth is facing a current slowdown to levels around 6.6% predicted for 1997, which, combined with higher land and labour costs, has led Taiwanese manufacturers to invest in low-wage destinations in Southeast Asia and mainland China. Investment in Southeast Asia is greater than on the mainland, but Taiwan is easily China's second largest investor; and two way trade exceeded $ 24 billion in 1995.

While Canada has observed a one-China policy since 1970 and does not have diplomatic relations with Taiwan, extensive economic, trade and people-to-people contacts exist. With a view to advancing trade, investment and tourism links with Taiwan, the Canadian Trade Office in Taipei (CTOT) was opened in 1986 under the aegis of the Canadian Chamber of Commerce. Although Canada-Taiwan trade has grown steadily, reaching close to $5 billion in 1995, making Taiwan Canada's eighth largest trading partner, Taiwan has a surplus of about $600 million and maintains a number of barriers to our exports, particularly in food, fish and financial and legal services.

Taiwan continues to be a potentially important source of venture capital for high technology businesses and natural resources

Canada's people-to-people links with Taiwan are growing, with substantial increases in tourism, education and immigration links. Visitor visas issued to Taiwanese grew 55 % in 1994, another 67 % in 1995 to reach over 100,000, and had already reached 100,000 by September 1996. Taiwanese tourists added over CDN $ 130 million to the Canadian economy in 1995 and they spend on average more money per trip than tourists from any other nation except Japan. Over 25,000 Taiwanese immigrated to Canada over the past three years, investing in businesses and establishing a significant presence in several Canadian cities.

The Student Linkage

Over 20,000 Taiwanese study abroad every year. In 1995, over 2,700 were accepted to study in Canada, an increase of 37 percent from 1994, and there are over 6,000 Taiwanese students currently studying in Canada. On average, they spend $30,000 dollars each per year in Canada, injecting about $180 million into the Canadian economy. Apart from the immediate benefit to our economy, this has long term significance for investment in Canada. If the students return to Taiwan after a satisfying school or university experience, a lifetime bond with Canada is established leading to solid business linkages down the road. Taiwan's present propensity to invest in the USA is influenced by the fact that large numbers of managers received their university education in the States.

Sectoral interests and linkages

Heavy emphasis is currently on real estate development and financial services

Sectors that have been identified as priorities for promoting investment linkages through corporate liaison calls and missions and seminars include:

- **information technologies** opportunities would be divided into **telecommunications equipment** including: cellular telephones, switching equipment, fibre optics, and satellite communications and **computer hardware and software** in which Taiwan is particularly open to jointly developing software products with Canada;

- **semiconductors:** several very competent Taiwanese companies are being approached to consider Canada as a site for a chip fabrication plant;

- **processed foods:** not only is there scope for expanding exports of food to Taiwan's $20 billion retail market, but there are opportunities for attracting Taiwanese investment into Canada to serve its own market and other export markets such as Japan, where it already has substantial market share in products such as pork;

- **environmental technologies,** particularly in sewage treatment, municipal solid waste disposal, and air and water pollution monitoring and control which will be needed to implement Taiwan's National Infrastructure Development Plan;

- **transportation technology** related to the airport, rail, highway and mass transit system expansions outlined in Taiwan's US$200 billion civil construction projects over the next six years;

- **construction products and services** including manufactured housing and components;

- **education:** there are over 6,000 Taiwanese students currently studying in Canada. On average, they spend $30,000 each per year in Canada, injecting about $180 million into the Canadian economy. Apart from the immediate benefit to Canada, this has long term significance for investment in Canada, as former students grow into managerial positions in business;

- **tourism:** with over 135,000 Canadian visitor visas issued to Taiwanese in 1996, and Taiwanese tourists spending some C$150 million in Canada, there is scope for Taiwanese investment into hotels and resorts;

- **immigration:** nearly 15,500 Taiwanese immigrated to Canada in 1996, and Taiwan has supplanted Hong Kong as the top provider of business immigrants to Canada. They are among the wealthiest of all Canadian immigrants, often investing large sums of money in Canada to start new businesses.

Challenges

The Business Immigration program has been instrumental in highlighting for the Taiwanese the features of Canada from an investor's perspective. Heavy emphasis is currently on real estate development and financial services, which we aim to diversify. In this context, the objectives are to:

- promote Canada as a high technology destination for Taiwanese venture capital and Canadian firms as potential candidates for joint technology development, strategic alliances and technology transfer arrangements.

- promote the Canadian economy as a safe investment destination and a good location to expand business interests, especially to serve US markets under the NAFTA.

- identify opportunities for business alliances, such as joint ventures, licensing agreements, that can increase Canadian exports not only to Taiwan, but also to Southeast Asia, particularly to Malaysia, Indonesia, Vietnam and Thailand where Taiwanese firms have substantial investments.

Implementation

The CTOT will continue to develop an investment and partnering program with the following main elements:

- introduce Taiwanese venture capitalists to Canadian high tech and venture capital firms as a means of growing Canadian firms and leading them into expanding markets in Taiwan and, with Taiwanese partners, into the rest of Asia;
- use high-level private visits to engage in advocacy of Canadian projects and investment opportunities;
- promote Canada as a site for the semiconductor industry;
- encourage the use of Canada as a base for manufacturing and research in North America;
- influence corporate thinking toward direct investment in Canada as a secure and profitable location for corporate expansion;
- translate all promotional tools into Chinese, and use an active public relations program to raise the Canadian profile in this market.

Strategy for Promoting Investment and Strategic Alliances with Australia and New Zealand

Objectives

- To retain and increase Australian and New Zealand investment in Canada;
- To promote and facilitate strategic alliances between Canadian and Australian/New Zealand firms;
- To promote the Canadian economy as a safe investment destination for antipodean capital and the advantages of serving the US market under the NAFTA.
- To encourage both Canadian and Australian/New Zealand firms to cooperate in third countries, particularly in Asia but also in the Americas.

Background

Australia and New Zealand are often underlooked or underrated both as sources of foreign direct investment and as countries in which to invest. Despite their geographical distance from Canada, they offer considerable opportunities for Canadian companies, particularly small and medium-sized enterprises (SMEs), looking to increase their exports to the Asia-Pacific region and beyond. Australia and New Zealand's political, economic and social stability, and their common language, similar culture, legal and regulatory systems, and business practices, not to mention a long tradition of friendship and cooperation, make them comfortable and rewarding environments for Canadian companies.

comfortable and rewarding environments for Canadian companies

Endowed with a vast array of natural resources, a well-educated population, and a strategic location in the fast-growing Asia-Pacific region, Australia welcomes most forms of foreign investment and is particularly responsive to investment in export-oriented and employment-creating industries. While ceilings are in place in sensitive areas such as broadcasting and print media, barriers to investment are generally minimal, transparent and fairly implemented. A favourable economic outlook and a series of economic reforms, including deregulation, privatization, and restructuring of industrial relations directed at making Australia more competitive offer additional encouragement for foreign investment.

According to Statistics Canada, direct Canadian investment in Australia at the end of 1996 topped $3.3 billion, reflecting an upward trend over the past 10 years and making this country Canada's second investment destination in the region after Japan. Conversely, cumulative Australian direct investment in Canada totalled $349 million at the end of 1996, the lowest level since 1989, when it peaked at $834 million. Australian Bureau of Statistics data, however, indicate that investment is rising in both directions, with Australian investment in Canada approaching $2 billion while Canadian investment in Australia approaches $5 billion. Almost half of Australia's investment in Canada is in metals and mining, 22% in food and beverages, and 18% in transportation and communication. Experience suggests that significant greenfields projects outside of the minerals and resource sectors are unlikely, and interest is more likely to be on a smaller scale or of the acquisition type. Australian FDI is linked to market acquisition and to a lesser extent technology acquisition. Australian business seeks investment for industry specific reasons. In the other direction, nearly 50% of Canadian direct investment is in the minerals and energy sector, 20% in manufacturing and 11% in agriculture and forestry. An increasing number of Canadian companies in a variety of sectors have also chosen to make Australia the site of their regional HQ operations. Several such firms fall into the SME category and are following in the footsteps of larger, earlier investors such as Nortel, TD Bank, and McCain Foods.

New Zealand investment in Canada is significant, considering the relatively small size of the population

Although New Zealand is a much smaller market and is not as richly endowed in natural resources as Australia, many Canadian companies have found it to be a profitable market for their goods and services as well as for investment. The business community is fully supportive, and it has been the policy of the current government to welcome and encourage foreign investment without discrimination. Although approval is required for all investments exceeding NZ$10 million or investments of any size in rural land or commercial fishing, nearly all applications are approved. Moreover, foreign-owned firms may participate in government financed or subsidized research and development programs on a national treatment basis.

New Zealand investment in Canada is significant, considering the relatively small size of the population, and despite strong competition from the USA as an investment destination. One company has the largest share of a $2-3 billion investment in the pulp and paper industry in British Columbia and a $500,000 investment in oil and gas in Alberta and Saskatchewan. Canadian investment in New Zealand has increased markedly in recent years and is estimated to be about $1 billion. Our investments are in areas as diverse as information technologies, energy, broadcasting, food processing, and distilling.

Business alliances, such as joint ventures, are now an increasingly frequent element of Canada's commercial relationship with Australia and New Zealand. In some cases, Canadian firms are seeking help to access other countries in the Asia-Pacific region. Conversely, there are opportunities for working with Australian and New Zealand firms seeking Canadian partners as conduits to markets in the Americas. Economic cooperation agreements signed with both countries offer scope for stimulating business alliances, especially for SMEs.

Sectoral interests and linkages

Partnering opportunities are good in informatics, telecommunications, mining and mining services, oil and gas, biotechnology and health care technologies, entertainment industries, environmental goods and services, and distance education.

Challenges

The main challenges in developing investment linkages with Australia and New Zealand are to:

- convince Australian and New Zealand firms of the advantages of investing in Canada, bearing in mind that Asia and, to a lesser extent, Latin America offer an economic environment that is becoming more and more attractive to potential antipodean investors;
- identify opportunities for business alliances, such as joint ventures, licensing agreements, that can increase exports and investment;
- promote the use of Canada as a base for regional operations in North America by offering comparative advantages over the United States;
- influence the perception of high-level corporate contacts in Australia and New Zealand, with respect to the business climate in Canada generally and particularly with respect to government trade and economic policies and programs.

Implementation

The investment and partnering programs in Australia and New Zealand should be expanded to include three main elements:

- Corporate liaison or outreach and maintaining contact with investment facilitators, exploiting the access and influence of Heads of Mission but not confining calls to this level;
- Focus on the development of investor relations and servicing elements at each mission by integrating investment themes into events such as business seminars, or major trade/technology fairs; this would include the identification and tracking of companies developing new products and technologies, particularly through government funded programs;
- Executive speakers or industry experts recruited in Canada; including identification of opportunities to speak at industry conferences.

Strategy for Promoting Investment and Strategic Alliances with Malaysia

Objectives

- To encourage Canadian firms to seek equity capital and partners for developing technology from appropriate Malaysian firms;
- To promote the Canadian economy as a reliable investment destination for Malaysian capital and the advantages of serving the US and Mexican market under the NAFTA;
- To promote Canadian expertise in infrastructure development for use in Malaysia and through partnerships with Malaysian firms in third countries, in particular, in the mass rapid transit, aerospace, telecommunications, and tourism sectors;
- To promote Canadian education and corporate training services; and
- To promote to Canadian firms the concept of Malaysia as the pivot for alliances with the Association of Southeast Asian Nations (ASEAN), China, South America, South Africa, other African countries and some muslim economies.

Background

Malaysia is on the move in spite of recent setbacks such as a 16% devaluation of the ringgit against the US dollar between June and September 1997 and a five-year low for the Kuala Lumpur Stock Exchange Composite Index in September 1997. Malaysian economic and financial analysts are concerned about the devaluation's impact on interest rates and the country's large current account deficit, bearing in mind that over 75% of Malaysia's foreign debt is denominated in Yen and the major portion of capital good imports are from Japan. The Malaysian economy continues to be generally sound, with growth remaining on track. There may be little impact from a Canadian perspective, as many of our exports are destined for Malaysia's growth sectors, however should the ringgit not regain ground, Malaysia may place a restriction on imports.

as low inflation, high savings rates and enthusiasm for education, as well as relatively stable politics

Compared with developing nations in other parts of the world, Malaysia and other Southeast Asian economies have relatively solid macroeconomic fundamentals, such as low inflation, high savings rates and enthusiasm for education, as well as relatively stable politics. However, a "downshifting" from the exceptionally high annual growth rates of the past few years to the more "mature" rates of 4-5% can be expected in the near term. Malaysia may still achieve its Vision 2020 ahead of schedule and become a developed nation before long. It is time for Canada to take advantage now while the opportunities are there. Canada should not wait for its competitors to have secured the best markets before efforts are launched which will bring only minimal results, as happened in Thailand 15 years ago.

Over the last 9 years, Malaysia has had sustained growth in GDP of 8 percent per annum. Apart from GDP growth, the other vital signs are good; inflation is low, full employment is realised and the political scene is the most stable in Asia. The last two Five Year Plans have basically transformed Malaysia from a resource based to a manufacturing based economy. Statistics of 1996 show that the manufacturing sector accounted for over 35% of GDP as compared to 19% ten years ago, while the service sector is growing in leaps and bounds also.

The 7th Five Year Plan (1996-2000) is aiming for greater growth and higher total factor productivity with particular emphasis on technology enhancement in the private sector. The complementary Industrial Master Plan covering the same period, is pushing for the "manufacture plus plus" approach focusing not only on manufacturing but also on upstream product research and development and downstream marketing and servicing.

The Malaysian Government is now encouraging companies to look at North America as an investment destination

Although some of them may be postponed on account of the current economic setback, the numbers of infrastructure projects and of new townships dedicated to high tech industries are impressive and innovative. In particular, the Multimedia Super Corridor(MSC) has every country's attention. When fully established, the MSC will fulfil Malaysia's vision of having its own silicon valley, of being at the forefront of IT development in Asia, if not in the world, and will drive the economy towards Vision 2020. Malaysia has repeatedly stated that it is benchmarking Canada for its technology development, particularly in IT, which means big opportunities for Canadian firms in this context.

The New Economic Policy (NEP) of the 1970's and the New Development Policy (NDP) of 1980's have worked well in rebalancing wealth distribution between bumiputera and non-bumiputera Malaysians. As a result, there is a cadre of bumiputera entrepreneurs who are well endowed and well connected to make things happen in Malaysia and who not only want, but are forced to diversify overseas. Malaysian Chinese entrepreneurs who in aggregate, used to own over 70% of the business (as compared to 42% now) have been for the last five years building up an impressive investment network in China. Malaysia has also become a major investor in the Philippines, Vietnam, Burma, Cambodia and Laos.

Both the Bumiputera and Chinese Malaysian business groups have been following the Prime Minister in his diplomatic and political ventures to South America, South Africa and other sub-Sahara countries, as well as Muslim nations in the middle east and in the CIS. Numerous Memoranda of Understanding have been signed, some projects are in place and others which are in abeyance but well funded, provide opportunities for Canadian expertise to help fill in the gap.

The Malaysian Government is now encouraging companies to look at North America as an investment destination for global industries such as IT technology, biotechnology, pulp & paper, aerospace, and mining. Indeed,the Berjaya group has a substantive investment in a pulp mill in Alberta, and the Malaysian Mining Corporation has invested heavily in tin mining in New Brunswick. A number of well known corporations are quietly surveying the Canadian IT sector. Then there are the handsome real estate development projects in Toronto and Vancouver by the MUI Group, TA Properties, United Malayan Land Sdn Berhad and the Shangri-la Group. Malaysia has definitely a surplus of capital that its small country and population cannot solely absorb.

Sectoral interests and linkages

Sectors that have been identified as priorities for promoting investment and strategic linkages include:

- **environmental technologies**, particularly in sewage and water treatment, hazardous and solid waste disposal and in the control of air and water pollution. Canadian expertise on environment management system (EMS)and compliance auditing are well regarded.

- **information technology and telecommunication**, particularly products and systems supporting the development of the Multimedia Super Corridor (MSC) including the seven flagship projects of smart schools, smart cards, telemedicine, electronic government, R & D Clusters, worldwide manufacturing web, R & D clusters, and borderless marketing centre. Examples include wireless communication systems, personal mobile communication equipment, optical fibre network components, digital signal processing technologies; asynchronous transfer switches, software, electronic medical records, total health information system, telelearning, EDI etc.

- **agri-food:** standard of living is rising at a rapid pace and the taste of the middle class is westernizing fast. Opportunities exist for attracting investment into areas of food processing, high value-added food, animal feeds, canola oil, beef and dairy cattle farming, chicken and turkey breeding.

- **aerospace:** a new council to coordinate the development of the Malaysian aerospace industry will be established momentarily. Directly under the chairmanship of the Prime Minister, the Council will restructure and build up the Malaysian aerospace industry and will be responsible for negotiating industrial offsets, both civil and military, over the full spectrum of air frame components from avionics to space equipment. Over the six years, Malaysia has successfully hosted the biannual LIMA (Langkawi International Maritime & Aerospace Show) which has become one of the key aerospace (and soon to be maritime) exhibitions in Asia.

- **space & geomatics:** while Malaysia may yet be part of the NASA program, it has sent up a couple of satellites recently. In conjunction with its aerospace program, it is to be expected that space technology will be one of the pulling forces of the high technology sector. There is a massive geomatics program being put together to determine the nation's land use, monitor pollution and guard its shorelines. Canadian expertise in this area is respected and well positioned.

- **oil and gas equipment and services:** Malaysia's oil & gas sector is the most profitable and Canadian participation in joint ventures has done well. Apart from exploration, opportunities exist for Canadian companies to establish strategic alliances with Malaysian corporations in downstream sectors such as chemicals and pharmaceuticals, the latter being one of the manufacture-plus-plus industries in the Industrial Master Plan.

- **defence products:** there are opportunities in new technically advanced equipment as well as sophisticated security end products for both military and civilian applications. The Malaysian government encourages foreign manufacturers to set up joint ventures for the production of high tech defence products. A prospective industrial defence mou will usefully serve as a backbone to advance Canadian position in this high budget sector.

- **biotechnology & health science:** another one of the manufacture-plus-plus industries identified by the Industrial Master Plan. Canadian technology consortia/parks are highly regarded by Malaysians as models for the development of their industries in biotechnology for the agricultural and pharmaceutical sectors. Strategic alliances between Canadians and Malaysians offer the former an Asian base and the latter leading edge technology.

- **education and corporate training:** It is well recognized that Canada offers quality and affordable education at the lowest price as compared with U.K., U.S.A., Australia and New Zealand, Germany and France. With the Malaysian priority on multimedia, computer science & engineering, Canada is gaining its respect as one of the fountains of knowledge in these faculties. There are immediate opportunities for cooperation in both universities and community colleges as well as in corporate training.

Challenges

The main challenges in developing investment and strategic linkages with Malaysia are to:

- increase the awareness of Malaysian investors of the industrial sophistication and competitiveness of Canada;

- encourage Canadian firms to seek venture financing and strategic partners with technology based Malaysian firms;

- identify opportunities for business alliances, such as joint venture projects that increase Canadian access not only to Malaysia, but also to Southeast Asia, China, Africa, South America and Key Muslim countries;

- encourage Malaysian consideration of Canada as a gateway for manufacturing, research and sales to the NAFTA market; and

- heighten Malaysia's attention on Canada as a tolerant society in a multicultural environment, secure, affordable and with high quality education.

Implementation

An investment and partnering program in Malaysia should be developed having the following main elements:

- Corporate liaison visits to influential Malaysians exploiting the considerable access and influence of the Canadian High Commissioner, as well as missions coming from Canada;
- Focus on the development of investor relations and servicing elements by integrating investment themes into events such as business seminars, or major trade/technology fairs;
- Introducing Malaysian venture finance companies and Malaysian banks to Canadian high tech and venture finance firms as a means of acquiring growth capital and encouraging market penetration in the Malaysian network;
- Encouraging visits to Canada by Malaysian economic and financial journalists either independently or in conjunction with other initiatives such as investment or trade missions;
- Disseminating investment information on Canada and tailor-made articles with success stories, using a number of new web sites which have recently emerged.

Profiles of Three ASEAN Economies

The Economic Crisis in Southeast Asia

A decision by Thailand to float the baht in the face of sustained selling pressure resulted in a 30% devaluation against the US dollar between June and September 1997. This has triggered a regional realignment that has resulted in substantial currency devaluations in neighbouring countries: the Philippines, Malaysia, Indonesia and Singapore. Governments and Central Banks in each of these countries have taken swift actions in attempts to cushion the economic impact of the devaluations and ASEAN finance ministers have agreed to adopt a common stand on currency speculation. Market analysts are predicting that Southeast Asian currencies will remain unsettled until regional markets digest the policy shifts of the various governments and reassess the economic outlook for this region.

With the region facing its first shakeout after more than a decade of unparalleled economic expansion, there is much to digest. It does not appear at this stage that the shakeout will take on the proportions of Mexico's crisis in 1994-95. Growth momentum in the region and internationally is still strong, inflation is contained and national governments in the region are generally in good fiscal condition. The main concern continues to be the size of current account deficits that many of these economies have been running which exposes them in the case of any weakening in their exports.

The region's current economic woes have exposed structural weaknesses that will set the stage for aggressive policy adjustments. These new measures will include faster privatization, financial reform aimed at transparency, necessary industrial restructuring and a renewed focus on competitive fundamentals such as education and infrastructure spending. Once these adjustments are made, Southeast Asian economies will emerge stronger for the exercise. The direct economic impacts of the crisis on Canada are expected to be small. Canadian exports to the region may be slowed as will Canadian participation in delayed infrastructure projects.

Indonesia

With a population of 190 million, Indonesia is the fourth largest country in the world. For the last 25 years, its economic growth rates have averaged 7.5 per cent per year and in 1996, the economy grew by 8.1%. This growth rate is unlikely to be sustained in the short term on account of the recent currency devaluation. Following an unsuccessful attempt to control currency depreciation by expanding its intervention band, on 18 August 1997, the rupiah was allowed to float and depreciated a further 10 percent (the rupiah has depreciated 16% against the US dollar since early July). On 3 September, on the advice of the World Bank, the Indonesian government announced a package of deregulatory and fiscal measures which are expected to lead to stabilization of the currency.

Indonesia is an important trading partner for Canada in the burgeoning Asia-Pacific region. A tradition of participation by Canadians as investors, suppliers and partners, coupled with annual trade and investment liberalization measures provide a strong foundation for increased commercial opportunity and activity. While a highly competitive market, with strong traditional linkages to European, Japanese, US, Korean and increasingly, Australian partners, Canada is demonstrating that it has every ability to expand and deepen its economic relationship with Indonesian government and private sector customers.

Indonesia is actively seeking foreign investment. In its sixth five year plan announced in 1994, the Government indicated that US$53 billion of investment would be required in order to develop the infrastructure needed to maintain Indonesia's high economic growth rates over the next five years. The Government expects that half of that investment would come from the private sector, including foreign investors.

Cumulative Canadian direct investment in Indonesia is estimated at $6.4 billion, making it Canada's largest direct investment portfolio in any Southeast Asian country. Canadian investment should grow to $8 billion in the next two to three years as investments come on line in the natural gas, mining, manufacturing, power, and environment sectors.

There is very little Indonesian investment in Canada.

Thailand

Rapid economic growth has resulted in profound changes in the Thai economy and the Kingdom is now classified as a newly industrialized economy. Per capita GDP has more than tripled since 1970 to reach US$3,100 and growth continues at about 8% per annum. Over the past 25 years, the share of manufacturing in the GDP increased from 16% to 29% and agriculture, although still important, reduced its share from 30% to 10% over the same period.

a renewed focus on competitive fundamentals such as education and infrastructure spending

The recent economic setback experienced by Thailand was triggered by a financial sector crisis caused by excessive exposure to an overbuilt property market against a background of weakening economic fundamentals, particularly declining exports, steadily worsening economic growth forecasts and a deep current account deficit. Many observers are linking Thailand's economic recovery to its political stability and economic management.

Thailand's financial crisis has led the country to accept an IMF US$16 billion rescue package which will include a wide array of public spending cuts. IMF insistence on increased transparency forced the Bank of Thailand to reveal it had accumulated forward obligations of US$3.4 billion in trying to defend the baht over the past months, leaving underlying reserves at a mere US$6.6 billion. Fiscal tightness and the loss in value of the baht mean that Canadian commercial ventures in Thailand are presently at risk of being either reduced, postponed or cancelled.

Nevertheless, exports continue to increase, and, if export performance continues on its present course, Thailand should have no trouble meeting the IMF's current account deficit target of 5 percent of GDP for 1997. Its economy will continue to liberalize, fuelled by a need for investment, primarily in technology and by its multilateral commitments. A prosperous business sector, middle class and government will have the money needed for infrastructure, competitive technologies and a more comfortable lifestyle. The country will increasingly become an industrial competitor with Canada, but also a new consumer market. There will be growing demand for high technology products and services, particularly in sectors like telecommunications, health and education.

A Team Canada mission, led by Prime Minister Chrétien, visited Thailand in January, 1997, when 55 deals worth more than $1 billion were signed. In his welcoming remarks to the Canadian business delegation, Thailand's Deputy Prime Minister and Minister of Industry, Mr. Korn Dabbaransi, invited Canadian companies to participate in Thailand's plans for business expansion in the following sectors: automotive, food processing, pulp and paper, electrical and electronics, road and rail transport and power and gas. Follow-up tours being arranged by Canada's Embassy will have a strong investment and technical transfer element as well as initiatives for engineering, construction and consulting companies.

Canadian investment in Thailand has increased significantly in the last five years

Canadian investment in Thailand has increased significantly in the last five years reaching $359 million in 1995, with Canadian firms showing increased interest in establishing a longer term presence in Thailand. A Foreign Investment Protection Agreement (FIPA) between Canada and Thailand was signed during the recent Team Canada visit. This FIPA will ensure that Canadian investors can compete in a stable, transparent environment.

The Philippines

After Thailand, the Philippines has endured the largest impact from the recent currency crisis as its economy had many of the same features, including a deep current account deficit, a declining stock market and looming concerns about an overbuilt Manila property market. In response, Filipino authorities have allowed the peso to float. Since early July 1997, the peso has fallen by 16.5% against the US dollar. The IMF has arranged a $US 1 billion loan to help shore up the peso. In spite of the recent economic setback, the wide-ranging economic reforms, privatization and deregulation undertaken over the past few years are paying off with solid economic growth, low inflation and impressive inflows of foreign investment.

Total merchandise trade between Canada and the Philippines has increased more than fivefold since 1985, reaching $843 million in 1996. Canadian exports to the Philippines grew from $46 million to $290 million during this period, while imports increased from $109 million to $553 million. It should be noted that these figures do not reflect the sale of Canadian services, which themselves are a considerable portion of overall Canadian commercial activity in the Philippines.

Canadian merchandise exports have traditionally been dominated by agricultural and resource commodities but recent exports to the Philippines reflect a shift towards machinery. Canadian exports of telecommunications equipment were quite significant in 1995 due to the start of the roll-out programmes of the Philippine telecom carriers. Canadian priority sectors include agri-food, power, mining, education, transportation, environmental management and telecommunications.

Investment

The positive political and economic climate of recent years has led to renewed confidence in the Philippines as a destination for foreign capital. There are now approximately 25 joint venture agreements and other arrangements involving Canadian and Philippine interests and providing evidence of the growing importance of this bilateral commercial relationship. Canada ranks among the top ten foreign investors in the Philippines. Major investors include Sun Life (for over 100 years), the Bank of Nova Scotia, Manulife Financial, TVI, Stayfast and BC Packers.

The Philippines has considerable borrowing capacity as well as a propensity to build projects under the build-operate-transfer (BOT) system of financing which will allow enormous investments in infrastructure to go forward in the decade ahead, particularly in the power, transport and communications sectors. More than half the rapidly growing Filipino population of 68 million are under 25, well-educated and productive. As investment, trade and tax reforms begin to break down the oligopolistic hold a few families have had on the economy, this should mean rapid development of small- and medium- sized firms and the growth of a larger middle class with considerable pent up demand. These factors combine to offer considerable opportunity in sectors where Canada has definite capability, such as power, telecommunications, transportation, agriculture and resource-based industries, water supply and urban services. Liaison with the Asian Development Bank (ADB) is facilitated by a unit within the Canadian Embassy in Manila that monitors projects financed by the ADB.

CIDA's support for sustainable development in the Philippines also contributes to trade and investment objectives, by demonstrating Canadian expertise, technology and services through technical assistance programs.

In spite of the current setback, economic growth in the Philippines over the next ten years is forecast to be strong. Democracy has established solid roots, and there is growing support for modernizing and opening the economy, although the pace of further reform beyond President Ramos' term (post 1998) will depend on his successor. The country will continue to face development challenges in the form of environmental degradation, inadequate social services, and a burgeoning population. A Team Canada mission, led by Prime Minister Chrétien, visited the Philippines in January, 1997, when 52 new business deals worth $500 million were signed.

China

China per se has not been included directly in this strategy since the spotlight for investment promotion will remain on Hong Kong in the short term. China is expected to continue to use Hong Kong as its main bridge to the outside world, for example for financing red chip companies (companies that are incorporated in Hong Kong and companies listed on the Hong Kong Stock Exchange that are controlled by mainland companies).

Major Chinese players in resource sectors (pulp, paper, oil and gas) and processed resources (steel, metal, foods) are attracted to the Canadian market and China is in the process of opening a number of offices in Canada. The long-term potential for two-way investment is significant.

ANNEX I

Links Between Trade and Investment

In the past thirty years or so, and particularly since the mid-1980s, international production has become very much an integral part of the world economy. Improvements in technology, particularly information and communication technologies, have made it possible for firms to process and send an incredible amount of information at very low cost. This has enabled them to manage, on a day-to-day basis, far-flung and widely dispersed production and service networks. When these revolutionary improvements are combined with the recent rapid liberalization of policies governing flows of trade, investment and finance capital, the result has been the rise of international production and the emergence of numerous new trans-national companies (TNCs), which have established foreign affiliates. A UN study of 15 major developed countries showed that the number of TNCs headquartered in them nearly quadrupled between 1969 and 1993, from 7,000 to 27,000. Worldwide there are some 40,000 TNCs with about 270,000 foreign affiliates.

These trends have given firms improved access to foreign markets and to foreign factors of production so that they can obtain more easily and widely what they need for production whether it be unskilled cheap labour or skilled people for R&D. The traditional sequence of internationalization, which is reviewed below, now tends to be modified and shortcircuited.

The traditional way for a manufacturing firm to invest abroad is to build up a strong domestic market, start exporting, find suitable foreign producers to manufacture under licence, start assembly or partial production, usually with a foreign partner, and then progress to full production through majority or wholly-owned foreign affiliates. If successful, manufacturing affiliates may be set up in other countries or markets and eventually foreign affiliates may begin to export. The process often leads to **associated trade**, as goods and services are supplied from the domestic base to the foreign affiliate, and also to **associated investment** both in the home and host countries. These sequential steps follow similar patterns in the development of natural resources and in trade in services, although in those sectors, some of the steps may be skipped. Canada has been no stranger to this process of globalization and has benefited from some C$180 billion of FDI (stock in 1996), and Canadian direct investment abroad (CDIA) now totals C$171 billion (95% of FDI).

The traditional internationalization sequence

an affiliate usually generates demand for other products such as capital goods or intermediate goods and services

In the manufacturing sector, a firm has traditionally embarked on an internationalization sequence1 as follows:

- Domestic production and sales
- When foreign markets become interesting, exports begin usually with arm's length sales, initially through domestic or foreign agents, without FDI.
- Intermediaries are replaced by export departments at headquarters, leading, perhaps, to some FDI, such as warehouses or foreign trading affiliates.
- Exports are followed by licensing of foreign producers to manufacture a product with proprietary technology.
- Once experience with these and other, mostly non-equity, forms of production abroad has been gained, firms gradually begin to build up production capacities, beginning with assembly operations or other partial production (sometimes in joint ventures with local partners), before turning towards production in majority or wholly-owned foreign affiliates, which tend to be stand-alone clones of their parent companies.
- While a firm may simultaneously export to many countries, investment in production facilities usually begins in one country, typically not too distant from the home country from the psychological point of view. This "psychological distance" is measured in terms of factors preventing or disturbing the flows of information between firm and affiliate, such as differences in language, culture, political systems, level of education and level of development.
- If successful, the experience with the first foreign producing affiliate can lead to setting up affiliates in other countries, on the basis of separate, local market-oriented strategies relying on stand-alone affiliates.
- Eventually, foreign affiliates may begin to export.

This step-by-step sequence of servicing foreign markets is followed by most manufacturing companies, both large and small, that develop foreign activities. However, some stages may be leap-frogged; the step of licensing of foreign producers is often omitted. In devising investment attraction strategies, it is important to know the stage the firm is at in this sequence, in order to influence its decisions. The presentation of an investment opportunity has to match the stage of the target firm's development in this sequence and, of course, timing is crucial.

Although foreign production may substitute for trade in a product, the impact on trade of establishing a foreign affiliate does not stop there. While replacing exports, an affiliate usually generates demand for other products such as capital goods or intermediate goods and services. These may be provided by other parts of the parent, its suppliers or independent companies at home, or firms in third countries. This may lead to new trade for both home and host countries - associated trade; if it pulls domestic suppliers of goods and services abroad, it can also lead to new investment - associated investment. Also, over time, and as transnational corporations (TNCs) mature, strategies change, as do trade relations. Exporters from a home country can become importers into itself from foreign affiliates; and importers into a host country can become exporters from it. This trend has occurred with Japanese TV and video producers, as Japan has now become a net importer of these and many other consumer goods, a scenario that would have been unthinkable ten years ago. Toyota now makes more cars overseas than it exports from Japan. Several studies1 of developed countries indicate that the trade-creating effect of FDI in manufacturing for the home country tends to outweigh the trade-replacing effect, providing another powerful argument in favour of more CDIA as a trade enhancing measure. Telling examples of the benefits of early CDIA are the experiences of Alcan in aluminum production in Japan and Moore Corporation (with Toppan) in the Japanese printing market.

Natural Resources

The relationship between trade and FDI in the natural resources sector is determined by the fact that extraction and primary production are in a fixed location and that an important part of the demand for the resources is international. For renewable resources in agriculture and forestry the sequence is similar to that of manufacturing except that trade usually consists of imports to satisfy demand in the home country (e.g., lumber to Japan). However, in non-renewable resources in petroleum and mining, FDI precedes trade. Moreover, exports from the host country may go to third countries. For example, the output of Inco's nickel mine in Indonesia goes to Japan.

There are also often good business opportunities (and pressure from host governments) for the TNC to make further investments in manufacturing and services, particularly in developed countries. For example, Shell and BP's investments in the oil business in the United States were initially to secure sources of supply, but they quickly added more FDI to develop petrochemical manufacturing plants (leading to exports of higher value-added products) and service stations, in other words - associated investment and trade. Furthermore, overseas investments by mining companies lead to the export of related exploration and mining equipment and services often from the home country where competent manufacturers of equipment and providers of services have already developed to serve the mining companies. Building on a very strong base in Canada, Canadian companies have been active in exploration and mine development overseas for many years. At the end of 1995, Canadian companies held interests in about 2,750 foreign mineral properties located in 99 countries around the world. Because of their knowledge and expertise, Canadian companies are well positioned to respond to opportunities arising from the globalization of the mining industry. Canadian-based companies now control one quarter of the world's larger-company market for precious metal, base metal and diamond exploration, and they hold the dominant share of that market in both Canada and Latin America. In Southeast Asia about 40 companies are active in seven countries.

Services

Trade in services usually requires interaction between producers and consumers and so their delivery abroad requires the movement of either producers or consumers or the use of affiliates, requiring FDI. Some very market sensitive services (such as local newspapers and advertising) have to rely on foreign affiliates. Many service companies start along the road to internationalization to support the international activities of their (goods producing) home country customers. Overseas branches of banks and trading companies usually start this way.

services have grown in importance to become the largest sector in the world economy

As services have grown in importance to become the largest sector in the world economy, FDI in services has also expanded, and now accounts for half of the world's FDI stock and 60-65% of FDI flows.

Although the above patterns are typical, there are variations on the theme depending on the characteristics of each industry, so that steel, automobiles, chemicals, communications, precision machinery and metalworking follow similar but distinct paths to globalization. Some examples[24] from Japanese industries illustrate this. The Japanese steel industry started later than its European and American counterparts and, lacking basic raw materials, built its mills on sea coasts to make transportation more efficient. Japanese firms developed large scale furnaces, LD converters and other advanced technologies to compensate for their lack of mineral resources. They have also pioneered the use of computers in heavy industry and, with their superb human resources, have developed the world's most efficient system of mass production and strengthened their ability to compete internationally. Instead of moving overseas, Japanese steelmakers have remained competitive by merchandising and selling their technology and experience; they are going global through technological cooperation.

The Japanese automotive industry started from scratch after World War II to reach the 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.

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

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 increase in world FDI, which reached US$2600 billion in 1995; 4.5% of this total gives Canada a stock of some $117 billion in 1995. The rapid rise in FDI in recent years has brought about enormous changes to the world economy22. FDI induces trade and deepens interdependence among nations. Intra-firm trade (the shipment of goods and services within the same company's global network of branches, affiliates and groups) has increased to the point where it accounts for about one third of total trade among developed countries. A side effect of this trend is that the influence that a nation-state can exert over its own country's trade balance has declined.

General investment promotion techniques

In the following guide, general investment promotion techniques are listed and presented as a "menu" from which to choose activities geared to any particular investment campaign. This menu can be used to select suitable activities for a country, region, sector or business according to their stages of development and according to the resources available for the campaign. The techniques are designed to fulfill the following objectives:

- increase awareness of the advantages of doing business in Canada;
- increase international investor confidence in Canada;
- attract new job-bearing international investments; and
- retain and expand existing investments.

Recommended activities to achieve these objectives can be classified as:

(1) broadly based general or "generic" programs; or

(2) those aimed at a group of investors already selected because of the sectors they are in, or because of the fact that they are already doing business in Canada, or because they are known to be seeking investment or business alliance opportunities; or

(3) Services to foreign investors, responding to specific enquiries and information requests often as a result of generic and targeted promotion; or

(4) Partnering and match-making services, which are particularly relevant for attracting investments in advanced technology and in venture capital activities.

These objectives are discussed below; and techniques for accomplishing them are summarized in Tables 2-5.

Increasing awareness

Canada has much to boast about and needs to do just that on every possible occasion. In a speech to the Keidanren mission that visited Canada in September 1996, Mr. Toru Hirano, President of Sumitomo Canada Ltd. listed ten reasons to invest in Canada:

1. High standard of education and quality of labour
2. Political stability as a mature democracy
3. Low crime rate
4. National healthcare system
5. Well established infrastructure
6. Preferential fiscal policy encouraging investment and free trade
7. Abundance of natural resources and low energy costs
8. Proximity to the United States and easy access to this huge market thanks to NAFTA
9. Competitiveness provided by a weak Canadian dollar
10. Support of Japanese Canadians; in other words, the presence of many well qualified Japanese Canadians in Canada helps to smooth the way for Japanese investment. (The ready acceptance of and respect for people from many lands is an advantage often quoted by foreign companies in Canada).

There are several other well recognized advantages[12]:

11. Solid research and development community
12. Competitive wages and business costs, as documented in the 1997 KPMG study comparing business location costs between Canada, the USA and Europe in eight sectors

13. A less litigious environment than in the United States

14. One of the highest qualities of life in the world

Increasing international investor confidence in Canada

The investment climate is a key factor influencing investment decisions

Confidence in Canada as a place in which to invest has to be instilled by constant reference to the "reasons to invest" described above. Equal emphasis should be placed on the strong performance of the Canadian economy, low inflation, growth in business investment, strengths in knowledge-intensive manufacturing and services and government policies which consistently welcome foreign investment.

The investment climate is a key factor influencing investment decisions. Some of the impediments that have been pointed out by investors include: training and skills development, business immigration and visa difficulties, market access, regulatory issues such as drug 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

There are several proven ways of attracting investment to Canada. Among the most successful are:

- major high profile missions to and from Canada such as the Keidanren mission from Japan in September 1996 and the Team Canada Business Missions to China, Asia, and Latin America
- conducting targeted seminars
- production and distribution of specific information on the advantages of Canada for a particular company
- organizing missions to Canada focused on specific sectors
- participating in seminars, missions and trade shows in order to expose foreign business people to investment opportunities
- following up on promising leads by providing relevant information to potential investors and introducing them to suitable partners and opportunities.

Sectors chosen must suit not only the needs of Canadians but the needs of investors in foreign countries according to their stage of development. Timing is also crucial. For example, in Japan, the Investment Promotion Section of the Embassy has selected for its corporate liaison program: information technologies (including semi-conductors), agriculture and food, life sciences, automotive parts and forest and building products. These correspond roughly with the trade promotion sectors in Canada's Action Plan for Japan with the notable exceptions of tourism and consumer products. The automotive parts sector is not in the current Action Plan because of well established procedures for promoting investment, but it remains, of course, a vital sector.

The criteria for selecting Japanese firms to approach in these sectors are based on analyses that indicate that the firms have: an aggressive North American investment strategy; strong R&D performance; significant exports to Canada and to North America; leadership and innovation in their respective industries and a reasonable size and sustained growth record. The recently formed "Investment Partnerships Canada" (IPC) has selected the same sectors with the addition of aerospace, chemicals and petrochemicals and mining. IPC will be focusing on a small number of mulinational enterprises (MNEs) that have the greatest potential for investing in Canada. The appointment of a Deputy Minister as "Country Champion" for Japan to visit leading MNE investors will enhance this program.

Retaining and expanding existing investments

Reinvested earnings account for some 60% of capital accumulation, highlighting the importance of encouraging firms to expand their operations in Canada.

As Canada's missions abroad conduct regular corporate liaison visits to investors that already have operations in Canada, parallel "back-to-back" visits to their subsidiaries in Canada are also conducted. Alternately, efforts are made to reach them with messages of welcome and messages that confirm the industrial and economic strength of Canada so that they can bolster the confidence of their parent companies in their investments in Canada. The Department of Foreign Affairs and International Trade (DFAIT) and Industry Canada, provincial and municipal governments maintain regular contact with Canadian subsidiaries of foreign firms and with their associations such as the Toronto Japanese Association of Commerce and Industry, the Hong Kong Canada Business Association and the Taiwan Entrepreneurs and Investors Association.

Investment Promotion Techniques

Listed in tables 2-5 are key activities[23] which are commonly used for promoting investment. The activities are grouped according to the type of promotion that is appropriate for the stage of development of the client under four headings:

(1) **Generic Promotion:** consists of proactive activities that are broadly aimed at business, financial and investment communities in order to increase awareness of Canada's favourable investment climate and to change attitudes towards investment opportunities.

(2) **Targeted Promotion:** also consists of proactive activities designed to increase international investor confidence in Canada and to increase awareness of the advantages of doing business in Canada under the NAFTA. However, the promotion is aimed at a group of investors already selected because of the sectors they are in, or because of the fact that they are already doing business in Canada, or because they are known to be seeking investment or business alliance opportunities. Because the targeted clientele or audience for the activities is smaller than that of generic promotion activities the return per client reached will likely be high as the target group may already be disposed towards overseas investments or alliances, although not necessarily in Canada.

(3) **Services to foreign investors:** this is a reactive activity, responding to specific enquiries and information requests,often as a result of generic and targeted promotion.

(4) **Partnering and match-making services:** these can be either proactive or reactive (to a "find me a partner" request). These services are particularly relevant for attracting investments in advanced technology and in venture capital activities.

Thus an investment promotion campaign can be designed to suit a particular economy or sector or business by choosing suitable activities from this "menu", based on the client's stage of development or awareness about Canada. Typically, one starts with generic promotion when the awareness level is low (e.g. the "Canada is open for business" campaign after the repeal of the Foreign Investment Review Act in 1985). After a reasonable level of knowledge is attained, the targeted approach kicks in (as in the recent semiconductor campaigns in Japan, Korea and Taipei). These campaigns often lead to service enquiries. Match-making events are very focused (and labour intensive) but are very effective once like-minded groups of Canadian and foreign businesses have been assembled). The "investment prospecting" kits in which profiles of Canadian firms and certain niche sectors are described in detail have been used very successfully in match-making events in high tech areas such as biotechnology, medical devices and software. Another example is the recent venture capital mission to Taipei, Singapore and Hong Kong in which some 10 high tech Canadian firms gave "show and tell" talks to carefully selected audiences about their companies and the partnerships they were seeking.

Table 2

	Key Activity/Initiatives	Resulting Products and Services	Targets/Clients (Reach)	Results (short term and long term)
	GENERIC PROMOTION: • production of videos, investor information packages and media kits; • speaking tours; • creation of booths at trade fairs; • conducting promotion seminars and shows;	• videos, and media kits; • general brochures and information kits; • newsletters and information services • speaking tours • events (seminars, trade shows); • promotional booths.	Business, financial investment communities generally. Direct Clients • actual and potential foreign investors Indirect Clients • provincial, regional and municipal economic development officers (EDOs) • Canadian enterprises seeking foreign partners and subsidiaries Co-Delivery Agents • DFAIT • Industry Canada • other government departments • other intermediaries (e.g., site locators, consultants)	Change in Awareness Change in knowledge and awareness of business opportunities, investment climate, industries or firms in Canada Change in attitudes Influence on decision to investigate opportunities in Canada and/or initiate negotiations with Canadian firms. Change in level of FDI or Partnerships: • conclusion of investment deals • conclusion of strategic alliances or joint venture • flow of foreign direct investment

Table 3

	Key Activity/Initiatives	Output Products and Services	Targets/Clients (Reach)	Results (short term and long term)
	TARGETED PROMOTION: • conducting targeted seminars; • production and distribution of targeted information products • organizing targeted missions to Canada; • arranging corporate visits and liaison activity • carrying out sector specific initiatives (seminars, missions, trade shows) • capitalizing on promising leads through events, calls, information products.	• seminars; • targeted information products • targeted missions to Canada; • corporate visits and liaison activity; • sector specific initiatives (seminars, missions, trade shows) • events, calls, information products to capitalize on leads. • investment leads provided • profiles of individual firms and project briefs	Pre-selected groups of investors in designated countries. Targeted groups may be MNEs, investors with subsidiaries or investments in Canada or with previous experience in Canada Direct Clients • actual and potential foreign investors Indirect Clients • provincial, regional and municipal economic development officers (EDOs) • Canadian enterprises seeking foreign partners and subsidiaries Co-Delivery Agents • DFAIT • Industry Canada • other government departments • other intermediaries (e.g., site locators, consultants)	Change in Awareness Change in knowledge and awareness of business opportunities, investment climate, industries or firms in Canada Change in attitudes Influence on decision to investigate opportunities in Canada and/or initiate negotiations with Canadian or foreign firm Change in level of FDI or Partnerships: • conclusion of investment deals • conclusion of strategic alliances or joint venture • flow of foreign direct investment • Canadian companies re: facilitation of foreign business contacts

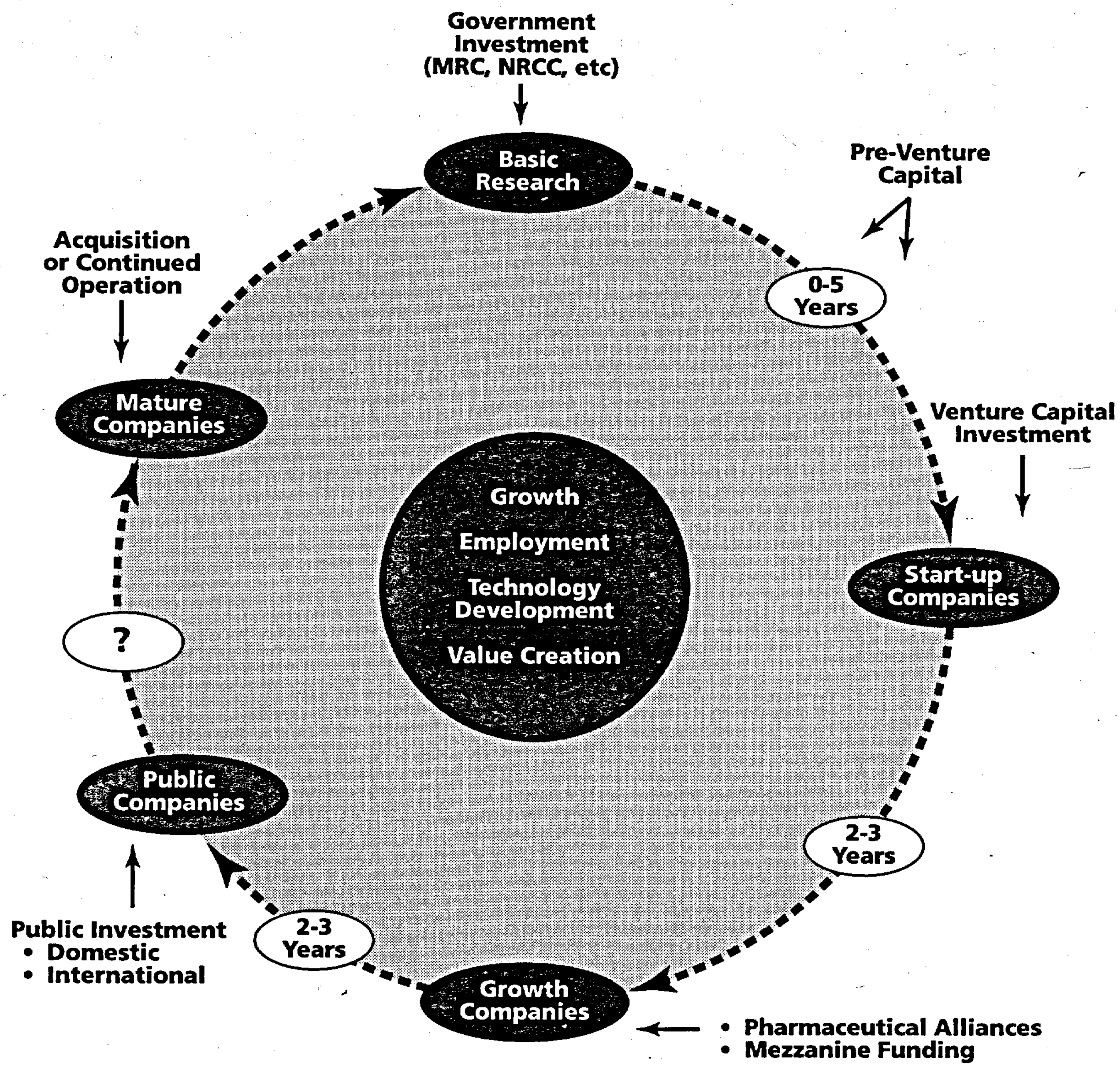
Table 4

	Key Activity/Initiatives	Output Products &Services	Targets/Clients (Reach)	Results (short term and long term)
	SERVICES TO FOREIGN INVESTORS: • providing specific information products in response to inquiries; • conducting or funding studies in response to specific requests; • providing informal assistance, advice, leads or contacts in Canada in response to specific requests.	• custom designed information products such as tailored investment kits • provision of consulting or advisory assistance. • investment leads • responses to enquiries • arranged corporate visits and initial business contacts • reports on business environment (macro and micro variables) • analyses of Canadian vs international competitiveness (by industry sector) • profiles of individual firms and project briefs	Business, financial investment communities generally. Direct Clients • actual and potential foreign investors Indirect Clients • provincial, regional and municipal economic development officers (EDOs) • Canadian enterprises seeking foreign partners and subsidiaries Co-Delivery Agents • DFAIT • Industry Canada • other government departments • other intermediaries (e.g., site locators, consultants)	Change in Awareness Change in knowledge and awareness of business opportunities, investment climate, industries or firms in Canada Change in attitudes Influence on decision to investigate opportunities in Canada and/or initiate negotiations with Canadian firms. Change in level of FDI or Partnerships: • conclusion of investment deals • conclusion of strategic alliances or joint venture • flow of foreign direct investment

Table 5

	Key Activity/Initiatives	Output Products and Services	Targets/Clients (Reach)	Results (short term and long term)
	PARTNERING AND MATCH MAKING SERVICES: • match-making services (these can be proactive or reactive and require sophisticated databases or knowledge of Canadian firms in a specific sector); • arranging missions, fairs and seminars to introduce interested players • conducting or funding studies in response to specific requests; • providing informal assistance, advice, leads or contacts in Canada in response to specific requests; • provision of information packages.	• general brochures, pamphlets, investment kits and other publications • responses to enquiries • partnering missions, fairs and seminars; • follow-up advice and assistance; • follow-up information packages; • corporate visits and initial business contacts	Clients/targets are usually pre-specified groups of technology intensive firms both in Canada and outside of Canada. Firms will be in target areas, and are usually invited to participate. There may be firms that participate from non -target sectors or countries who inquire about partnering. Direct Clients • foreign and Canadian firms seeking partners or alliances Indirect Clients • provincial, regional and municipal economic development officers (EDOs) Co-Delivery Agents • DFAIT • Industry Canada • other government departments • other intermediaries (e.g., consultants)locators, site .,	Change in Awareness Change in knowledge and awareness of business opportunities, investment climate, industries or firms in Canada Change in attitudes Influence decision to investigate opportunities in Canada and/or initiate negotiations with Canadian or foreign firm for partnering Change in level of FDI or Partnerships: • conclusion of investment deals • conclusion of strategic alliances or joint venture • flow of foreign direct investment • acquisition of technology and management knowhow

Table 6 *Basic Research Investments Create a Virtuous Cycle of Growth And Development Opportunities*



Source: Medical Research Council

Long Term Factors

Education

The maintenance of high standards of education is, of course, fundamental to the country's growth and prosperity in the long term. There is also considerable benefit in marketing our education services abroad to attract high calibre students from overseas, because they develop strong links with Canada while they are here and often return as immigrants and investors. It is significant that, on the January 1997 Team Canada visit to Korea, the Philippines and Thailand, 60 people out of the 500 or so Canadian participants were from our universities, colleges and even public school boards, intent on increasing enrolment of students from those countries and on finding research contracts.

Sixty % of all international students in Canada come from the Asia Pacific. In 1994, 90,000 international students contributed $2-3 billion to Canada's economy and helped to generate 19,000 jobs. Asia's burgeoning economies are taxing their countries' educational, training and human resource infrastructures to the limit and many students from there are keen to learn in an English or French speaking environment. There is an opportunity for Canada to tap this need for undergraduate university education, graduate level courses and specialized training offered by international business schools, community colleges and public and private language schools, and the private sector. These courses can be delivered in both Canada and in Asia. Asians do business with people they know and trust. By becoming better known to the next generation of Asian decision makers, Canadians will have a competitive advantage when doing business in Asia.

In April 1995, the Government of Canada in cooperation with the Asia Pacific Foundation of Canada (APFC) created a network of Canadian Education Centres (CECs) to promote education and training opportunities in Canada. Today, CECs in Kuala Lumpur, Taipei, Seoul, Hong Kong, Singapore, Jakarta, Bangkok, New Delhi, Mexico City, and Canberra provide professional assistance to recognized education and training institutions to market their programs in order to attract full-fee paying international students to study in Canada. A CEC in Beijing, as well as the other centres, also secure corporate and group training contracts. There are over 210 subscribers: all major universities, colleges, language training institutions, secondary school boards, private secondary schools, and training institutes. The CEC Network, a wholly-owned subsidiary of the APFC, has already made a big difference to the recruitment of international students. For example, in Korea, student authorizations have increased from 800 in 1993 to 8,000 in 1996 and this statistic does not capture the hundreds of students coming to Canada for short term study (less than three months). The maintenance and expansion of the network is strategically valuable in the promotion of education links with Canada, and helps to build long term relationships necessary for sustained business with Asia.

60% of all international students in Canada come from the Asia Pacific

Business Immigration

The Business Immigration Program was formally recognized in the Immigration Act of 1976 and its associated Regulations of 1978, which established the entrepreneur and self-employed categories of immigrants with their own selection criteria. The Investor Program was introduced in 1986 and has recently been amended. Business immigration provides a significant source of investment capital for Canada and accounts for 10% of immigration flows. In 1996, out of a total of 225,313 immigrants, 10% came in under one of the Business Programs (5% entrepreneurs, 3% investors and 2% self-employed). In 1995, nearly 3,000 entrepreneurial immigrants invested $435 million and created 12,850 jobs; 1,400 investor category immigrants invested $607 million and created 2,635 jobs; and there were just over 1,000 in the self-employed category. Since its inception in 1986, $3.75 billion has been invested by some 14,000 investor category immigrants resulting in the creation of 33,700 jobs. In 1996, Hong Kong provided 37% of such investor immigrants, followed by Taiwan (20%) and South Korea (7%).

Research, Development and Venture Capital

The linkage between research, development and venture capital is well illustrated by the chart in Table 6, taken from a recent presentation by the Medical Research Council of Canada in Japan[25]. The presentation emphasized the fundamental role played by basic research in the "virtuous cycle of growth and development opportunities". Without it, tomorrow's innovative companies will not exist; but the chart also illustrates the essential role of venture capital. One of the reasons for the growth of dynamic companies in the United States in the fields of biotechnology and information technology is that America's venture capitalists put 24 % of their investments into biotechnology and 46% into information technology[26]. By contrast, European venturers funnelled just 2% of their investment into biotechnology and 16% into IT - which helps to explain the lack of dynamism in these industries in Europe in spite of substantial basic research activity.

References

1. UNCTAD: World Investment Report 1996

2. Steiner, Robert. Wall Street Journal. Globe and Mail 27 Jan 97.

3. Dobson, Wendy 1995. Benchmarking the Canadian business presence in East Asia

4. Dobson, Wendy 1996. East Asian Capitalism: Diversity and dynamism.

5. Business Week 27 Jan 97

6. Courtis, Kenneth, Deutsche Group Asia, Ltd. 1997.

7. OECD: International Direct Investment Statistics
Yearbook 1996

8. Commonwealth of Australia, Dept of Foreign Affairs and Trade: Overseas Chinese Business Networks in Asia.

9. Mr Kevin Westley, Chairman and Chief Executive, HSBC Investment Bank Asia Ltd, the merchant bank to Hongkong Bank: Hong Kong Management Association Conference on Regional Competitiveness, 11 November 1996.

10. Asia Pacific Foundation of Canada Nov 1994: Canada's "Hidden Advantage": Asian Canadians .

11. Mr. Toru Hirano, President of Sumitomo Canada Ltd.: articles in "The New Canadian" September 1996

12. Prospectus Inc. (1996) Investing and Doing Business with Canada and 1997 update which includes five European countries

13. Asia Pacific Foundation of Canada Feb 97. Report

14. KPMG Oct 1996: The Competitive Alternative: A Comparison of Business Costs in Canada and the United States. Published by Prospectus Inc.

15. Department of Foreign Affairs and International Trade Office of the Inspector General Oct 1996: Evaluation of the Investment Development Program.

16. DFAIT Japan Division Nov 1996: Canada's Action Plan for Japan.

17. DFAIT Korea and Oceania Division 1996: Canada's Trade and Investment Action Plan for the Republic of Korea.

18. The Hongkong and Shanghai Banking Corporation Limited: Business Profile Series on Asian countries

19. Science Council of B.C. June 1996: Asia Pacific Investment Study

20. DFAIT 27 Feb 97: Message #4 from the Chief Trade Commissioner

21. DFAIT Nov 1996: Asia Pacific: International Trade and Investment Action Plan

22. Nomura Research Institute 1995: Foreign Direct Investment in Asia

23. DFAIT Feb 1997: Developing a Performance Management Framework for DFAIT Investment Promotion Programs

24. LOOK JAPAN Feb 1997: Technology Policy in a Borderless World

25. Medical Research Council of Canada Feb 1997: Health Research and the Jobs Agenda

26. The Economist 25 Jan 1997

27. Industry Canada Feb 1996: Working Paper No.8: Foreign Direct Investment and APEC Economic Integration

28. Industry Canada Research Series 1996: The Asia Pacific Region in the Global Economy. General Editor: Richard G. Harris

29. Library of Parliament Research Branch. June 1997: The Importance of the Asia Pacific Region for Canada: An Interim Report, prepared for the Standing Senate Committee on Foreign Affairs.

30. John Naisbitt 1996: Megatrends Asia

31. Karin Holroyd & Ken Coates 1997: Pacific Partners - The Japanese Presence in Canadian Business, Society and Culture

Contact List

Canadian Embassy
Tokyo, Japan
Tel: (011-81-3) 5412-2101
Fax: (011-81-3) 5412-6247

Canadian Consulate General
Osaka, Japan
Tel: (011-81-6) 212-4910
Fax: (011-81-6) 212-4914

Canadian Trade Office
Taipei, Taiwan
Tel: (011-886-2) 547-9500
Fax: (011-886-2) 712-7244

Canadian Embassy
Seoul, Korea
Tel: (011-82-2) 753-2605/8
753-7290/3
Fax: (011-82-2) 755-0686

Canadian Consulate General
Hong Kong
Tel: (011-852) 2847-7414
Fax: (011-852) 2847-7441

Canadian High Commission
Singapore
Tel: (011-65) 325-3200
Fax: (011-65) 325-3294

Canadian Consulate General
Sydney, Australia
Tel: (011-61-2) 9364-3000
Fax: (011-61-2) 9364-3097
9364-3098

Canadian High Commission
Wellington, New Zealand
Tel: (011-64-4) 473-9577
Fax: (011-64-4) 471-2082

Canadian High Commission
Kuala Lumpur, Malaysia
Tel: (011-60-3) 261-2000
Fax: (011-60-3) 261-3428
261-1270

Canadian Embassy
Beijing, China
Tel: (011-86-10) 6532-3536
Fax: (011-86-10) 6532-4072

Canadian Consulate General
Shanghai, China
Tel: (011-86-21) 6279-8400
Fax: (011-86-21) 6279-8401

Canadian Embassy
Bangkok, Thailand
Tel: (011-66-2) 237-4126
Fax: (011-66-2) 236-6463

Canadian Embassy
Jakarta, Indonesia
Tel: (011-62-21) 525-0709
Fax: (011-62-21) 571-2251
570-1494

Canadian Embassy
Manila, Philippines
Tel: (011-63-2) 867-0001
Fax: (011-63-2) 810-1699
810-8839

For more information contact:
Richard Lovatt
Asia Pacific Branch
Department of Foreign Affairs and
International Trade
Ottawa, Ontario
Tel: (613) 944-5941
Fax: (613) 943-8286

InfoCentre
Department of Foreign Affairs
and International Trade
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel: 1-800-267-8376
(613) 944-4000 (Ottawa/Hull)
Fax: (613) 996-9709