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No. 67/24 FOREIGN OWNERSHIP AND THE MULTINATIONAL CORPORATION

Excerpts from an Address by the Honourable Robert H. Winters, Minister of Trade and Commerce, at the Forty-second Canadian Purchasing Conference, Montreal, July 10, 1967.

Multinational Company

Significant as tariff reduction and trade liberalization negotiations have been in the past, and will continue to be in the future, there is another fact of economic life which I believe will be of increasing importance to the international economic environment of the years ahead: the rise of the multinational company with operations in more than one country. These corporate giants, whose interests are far-flung, will, I believe, have great influence on the development of world trade and production in this latter third of the twentieth century. Being in a position to rationalize production in many countries, these supranational companies can provide unequalled opportunities for the ever more rapid economic progress of mankind.

In this modern world, in which the dimensions of space and time and geography are so rapidly shrinking, a narrow nationalist approach is outmoded. In this era of jet travel, it takes hours to transport men and goods over distances that once took months, or even years, to cross. Events on the other side of the planet enter our living-rooms and our awareness within moments of their happening.

Multinational companies have long existed. But never before have they occupied such a prominent place in the economic affairs of so many nations. The list of companies producing goods and services in half a dozen or more countries is today a long one. Some 200 American corporations have such an international scope of operation; some 30 European; and some Canadian. And rare is the country which has not within its borders a subsidiary of one of the multinational giants.

In Canada alone, the subsidiaries of foreign corporations number in the thousands. But before turning to look at these Canadian subsidiaries let me briefly touch upon the advantages and strengths of the multinational corporation in the world economy.

In essence, these international giants can streamline and expedite the exchange of capital and manpower, of machines and men, of ideas and innovations. Research done in one country can be made rapidly available to many. Managerial techniques and skill and training acquired in one country can be utilized and shared among others.

In part, the strengths of multinational companies can be matched by consortia of smaller companies -- particularly in the field of exporting. In my opinion, much more use can be made of this technique, and we are at present studying areas in which further government action might facilitate this channel for developing collective strength by a number of smaller companies concerting together for specific purposes.

Well-managed multinational companies discharging their responsibilities as good corporate citizens have great potential and promise. But they bring with them many problems as well. These giant corporations, and the governments of the nations within whose boundaries they operate, have to adjust to the new concepts and techniques dictated by this product of our changing times. The subtle and difficult problems of the degree of decentralization essential to a world-wide operation must be solved.

National governments will have to update many of their traditional policy concepts. What, for example, do capital flows between nations represent in the era of the multinational company? As one economist has observed, in dealing with these giant international corporations, "it matters less how much capital actually crosses national frontiers, than whether or not this capital has an effect on the 'domestic' sector within the economy".

Exports, too, take on a new meaning as, increasingly, international transactions take place within the framework of a single multinational firm, and as the international operations of a company with headquarters within one nation have a substantial impact on the trading performance of many other nations.

Fiscal policy must be flexible as the incentives or disincentives provided to multinational firms become an increasingly important element in a nation's tax structure. And monetary policy, when capital is acquired more through complex intercorporate linkages, and less on the open market, will have gradually to be reformed to fit the changing circumstances.

National policies cannot ignore the importance of multinational companies. It can make the economic climate favourable or unfavourable for them depending upon whether the government deems them to be harmful to the nation or whether it wishes to utilize their advantages. But, before this can take place, we should gain much more knowledge of the impact of these multinational firms on national economies. And because this question is of particular importance to Canadians, this is what we have set out to do.

The enormous contribution of foreign capital to Canada's economic development cannot be overstated. There is no doubt about the fact that foreign direct investment in Canada has enabled us to achieve a relatively high standard of living much more quickly than we could otherwise have done.

Foreign Capital

Reliance upon foreign capital is by no means new to Canadians. It is deeply rooted in the basic structure of our economy and, since before Confederation, has been an essential feature of our development. Spread over great geographical areas, the utilization of Canada's natural resources has taken tremendous amounts of capital, management initiative and know-how to develop. But because of Canada's sparse population, the domestic supply of these essential nation-building resources has fallen well short of requirements, particularly in times of rapid development. Such a period characterized the Canada of a century ago. In fact the need for foreign capital to maintain the rapid rate of growth was one of the prime reasons for Confederation itself. One important motive leading the British North American colonies to unite was the need to provide a broader, credit-worthier base for foreign borrowing.

The importance of foreign capital to the Canadian economy today can be seen in the magnitudes involved. The most recent estimates indicate foreign interests have a total stake of $33 billion in our economy. Their net investment, allowing for Canadian assets abroad, exceeds $20 billion -- nearly twice the total annual value of our exports.

Half this foreign investment is in ownership of Canadian enterprises. It is heavily concentrated in the areas of manufacturing and of mineral production. Foreign-owned companies now account for three-fifths of Canada's manufacturing and mining and three-quarters of our petroleum and natural-gas industries. More than three-quarters of the foreign ownership is in the hands of residents of the United States.

This subject is, therefore, of great interest to Canadians. A committee of the Federal Cabinet has been assigned to the task of searching out and presenting further information. And the Department of Trade and Commerce has, as a result of continuing studies started early last year, undertaken to contribute data for their work. This occasion today provides me with an opportunity to comment briefly upon some of the results of the Department's work.

One primary interest was with the corporate behaviour of foreign-owned subsidiaries in Canada as the activities of these firms -- both real and imagined -- have been the subject of much debate in recent years.

Three basic fears about the presence of foreign ownership in the national economy have been raised. One is that they will create a charge against the country -- in the form of repayment of debt and payment of interest and dividend -- of unmanageable proportions. While recognizing that any inflow of capital creates a debt (and in our case it is substantial), I must point out that interest and dividends paid abroad amount to only about two per cent of our gross national product -- a third of what it was during the 1930s. And, on a per capita basis, Canadians invest much more heavily in the United States than Americans do here.

Secondly, it is stated these multinational corporations are used, or could be used, as instruments of political control by a foreign government. There is not time for me to dwell at length on this suggestion. Let me say, however, that what foreign capital does in Canada is a matter for the Government to determine. It is up to us to state the rules of the game and we have done so. But my examination of the situation has led me to believe that, by and large, foreign subsidiaries in Canada conduct themselves as good corporate Canadian citizens. It may be, as Raymond Vernon, Professor of International Trade and Investment at the Harvard Business School, has suggested, more accurate to say that: "As a general rule, the subsidiaries of multinational corporate groups have a special sense of their 'foreignness' and of their vulnerability to criticism and hostility on the part of the local community. Partly for that reason, the subsidiaries of such groups ordinarily appear to be among the better-behaved members of any local business community. Usually, they seem both sensitive and responsive to the formal requirements of national law, to a degree which national enterprises seldom match." I don't disagree with that statement.

Thirdly, it has been suggested that the criteria under which these multinational companies operate are not in the best national economic interest of Canada -- that the national economic good is ill-served by an organization which, it is feared, would be prepared to sacrifice national interest to its overall corporate advantage. Here, again, it is the responsibility of the Government to see that this does not happen. But, as part of its programme, the Government must state what criteria are to be followed to make sure the national interest is served.

This we have done through the enunciation of 12 "Guiding Principles of Good Corporate Behaviour in Canada". I stated these principles in a letter to foreign-owned subsidiaries in Canada some 15 months ago. Corporate reaction was requested and from 363 larger foreign-owned companies I asked for some detailed figures concerning their operations and financing so that we might study trends and patterns of corporate behaviour.

Foreign Subsidiaries

This programme seemed to be welcomed, and the response to it has been impressive. Of the 3,300 companies to which I wrote, more than 2,500 have replied. Many of those not replying are now dormant, are simply nominees, have been merged with other companies or are of a type which could not contribute to our study. Of the 363 major subsidiaries, all but 17 have replied. And I was most gratified to note, the other day, that the Canadian and American Chambers of Commerce recently approved "Fifteen Precepts for Successful Business Operating Procedures in Canada and the United States" substantially embodying the 12 guiding principles we propounded.

Many of you, or, at least, many of the companies you represent, will have studied these principles, so there is no need for me to reiterate them here today. Many more of you will have followed the extensive coverage given the results of this survey by the Canadian press. And you will, I am sure, have given some attention to the 75-page report recently released by the Department of Trade and Commerce on 266 of these larger foreign-owned subsidiaries -- accounting for two-fifths of all non-financial business done by large firms in Canada.

If you want a detailed analysis of their implications, I am afraid you will have to wait until the Cabinet committee has completed its work. I should say, however, that nothing uncovered so far by the Department or by any independent researchers would indicate there is validity to the charge that foreign-ownership per se acts against our national interests. Of course, it doesn't prove that every last foreign subsidiary is pure as the driven snow in every particular. But no matter how much work is done, no matter how many studies are produced, there will always be those who maintain that foreign-owned companies as a class are serious offenders against the national interest. We intend to keep the matter under review and point out areas where improvement in corporate conduct is indicated. But our studies to date do suggest that the standard is much better than some people would have us believe.

For example, some have argued that foreign subsidiaries do less than their share of exporting -- a claim which, if widely proven, would be of very serious concern to me, as Minister of Trade and Commerce. Some companies do have their sales policies determined at head office and do not export from Canada. But the majority of subsidiaries do export now and some of the remainder indicate they intend to do so. The statistics we now have are the best proof of their performance. We shall continue to encourage the few stragglers, as indeed we do for Canadian-owned companies.

The major foreign-owned subsidiaries, accounting for one-third of this nation's total exports, sell roughly the same proportion of their goods and services abroad as does the whole economy -- close to 20 per cent of total output. Many instances were cited where the parent firm had been of invaluable assistance in developing export business for the subsidiary.

Further, these firms show a moderate surplus on their commodity trade with the outside world -- just as the overall economy shows a trade surplus. And their overall current and capital receipts just about balance; these subsidiaries are thus paying for themselves without involving an external financing burden for the economy as a whole.

Another expressed fear is that foreign subsidiaries to too great a degree look outside our borders for their sources of materials. I have already expressed my concern about the purchasing policies of all companies in Canada -- both domestic and foreign-owned -- and, indeed, of individual citizens. The question is whether the conduct of foreign-owned companies varies greatly from that of Canadian-owned companies in this area. Evidence indicates that it does not.

For the first five months of 1967, compared with the same period last year, the healthy 16½ percent advance achieved in exports has been about matched by a similar increase in imports. It is this which gives a new urgency to the development and utilization of economic sources of supply in Canada. And it would not be regarded as good corporate behaviour for foreign subsidiaries to discriminate against competitive Canadian suppliers.

In fact, of these larger subsidiaries' total expenditures in 1965 (some $13.5 billion), roughly 40 per cent went to pay Canadian wages and salaries and another 40 per cent to purchases of Canadian goods and services. That amounts to nearly $11 billion spent in Canada.

In their replies to my letter, nearly every company indicated a widespread and purposeful effort toward domestic sourcing. Many companies reported substantial increases in Canadian content in the products they produce. And I was pleased to learn that many of these firms find Canadian suppliers competitive, providing prices and services at a level sufficient to offset the alleged advantages of purchasing from traditional foreign sources of supply.

Greater Domestic Participation

Recognizing the positive contribution of foreign capital to Canada's economic development does not, of course, mean we must not seek greater domestic participation in the expansion of our economy. Canadians will reap a larger share of the proceeds of industrial development to the extent that we participate more fully in the creation and ownership of Canadian industry. The proportion of our new development which we can carry out with Canadian resources is determined first by the rate of growth and secondly by how, and how much, we Canadians choose to devote our resources to industry-building pursuits.

It will not be increased by keeping out foreign capital. On the contrary, it will be diminished. Any reduction of foreign funds into Canadian enterprise would run the risk of slowing-up Canada's development, with all the well-known consequential results. The surest way to achieve greater Canadian ownership is to foster, not impede, our economic development; and then to encourage the use of the proceeds from this growth in expanding our own capital resources and developing new enterprise.

Foreign ownership is part and parcel of the growing trend toward the large multinational corporation. This is a fact of life which, if accepted and used properly, can bring great benefits. Whether or not it is used wisely in the economic programme of the nation depends upon the extent to which the Government defines the rules of the game. In the final analysis, it does not matter very much who owns the capital -- it is the use to which it is put that counts, and this is a field in which the Government can be the determining influence.

One thing is certain, and that is that corporations must become increasingly strong to stand the severe pressures and stresses of domestic and international competition. Rising costs and narrowing profit margins currently put management to the test as never before in determining the proper utilization and balance between labour and capital.

In tackling these problems, flexibility, willingness to change, readiness to experiment and emphasis on research must be integral parts of all company policies. The difficulties are great, but in an expanding world the opportunities are even greater if we have the wit and the will to seize them.

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