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NOTES FOR A SPEECH
BY THE
SECRETARY OF STATE
FOR EXTERNAL AFFAIRS,
THE HONOURABLE MARK MACGUIGAN,
TO BRAZILINVEST,
TORONTO,
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TRANSNATIONAL CORPORATION,
INVESTMENT AND THE NORTH-SOUTH
DIALOGUE

It is a great pleasure for me to be here at this luncheon today, especially as it coincides with Brazil's national day. It is equally pleasant to have the honour of sharing the podium with Mr. Galveas, the distinguished Minister of Finance of Brazil. As you know, Canada and Brazil have a long history of economic cooperation. It has been a relationship that has benefited the people of both our nations.

I would also like to say how pleased I am to be addressing such a prestigious group of bankers, financiers and investors. I would like to take this opportunity to exchange some ideas with you on international investment and multi-national corporation and how these two elements can contribute to the North-South Dialogue. I would also like to suggest to you ways in which we might formulate a set of world-wide principles which would lead to a better international investment climate and a more rapid economic growth.

I do not have to tell you that Canada and Brazil have historically been the recipients of a great deal of direct foreign investment. This investment has benefited both countries significantly and allowed them to mature more quickly than they otherwise would have.

Canada, after decades of being a net importer of direct foreign investment, has in recent years become a net exporter of direct foreign investment. As a result, Canada is in a position to fully appreciate the advantages and disadvantages of direct foreign investment and to view investment from both sides.

Those of us who have responsibilities for the management of financial and economic environments -- whether in the public or private sector -- know that striking a balance between dynamic growth and balanced economic development is essential but never easy. It is essential because economic environments play a major role in the success of any investment decision, regardless of its size or nature. These decisions affect not only the creation of wealth but often of jobs and the wellbeing of millions of people. It is not surprising, therefore, that countries have actively encouraged foreign investment.

However, there are other considerations besides those of pure economics. Virtually every nation has adopted some form of foreign investment control designed to serve its investment needs and aspirations. In the United States, for example, there is an extensive network of foreign investment regulations and policies administered by some twenty agencies at the federal level. A foreign investor is not eligible to own a house in Indiana, a chicken farm in Connecticut or a mine in Alaska. In the UK, the Monopolies and Mergers Commission has effectively blocked certain forms of foreign investment. In Germany, the State has reacted on an ad hoc basis to forbid foreign participation in many of its industries. Often, these restrictions on foreign investment have been subtle and most have been in existence for decades.

Canada established foreign investment guidelines, in a open comprehensive way, fairly recently with the Foreign Investment Review Act (FIRA). FIRA was designed to permit the federal government to review certain forms of foreign direct investment to determine whether they are of significant benefit to Canada. I would emphasize, however, since its inception FIRA has functioned more as a screen than as a barrier to foreign investment, and is non-discriminatory as to the country of origin of foreign investment. This is illustrated by the fact that in excess of 90 percent of foreign investment applications have been approved.

The need to control the investment climate in Canada, as in so many other countries, arose in large part from the growth of transnational corporations. I think it is important, in reviewing the growth and influence of these kinds of corporations to state that in my own view transnationals are neither the impediments to economic development nor underminers of national sovereignty that their detractors would have us believe. At the same time I do not believe that they are our best hope for overcoming world poverty and building a global society, as their most ardent proponents argue. They are, however, undoubtedly the largest, most efficient, technologically advanced and internationally adaptable enterprises available to us. As such, they have a potentially significant contribution to make in the North-South challenge.

Transnational corporations account for a large and growing proportion of world production, research and development, employment and trade, and their managers allocate capital and resources on a global scale. The annual operating budgets of many transnational corporations exceed those of most of the world's governments. Given these characteristics, it is not difficult to see that international cooperation is essential to ensure that the benefits of these operations are maximized for both the host country and the investor.

Transnational corporations, as an important international phenomenon, emerged in the years following the war. American and British corporations were the first to go multinational and for a long period accounted for the majority of direct foreign investment. By the late sixties and early seventies, European and Japanese firms had arrived on the scene and grew quickly. To underline the growth and significance of transnationals, intra-corporate trade, as a percentage of total world trade, has expanded dramatically from 25 percent in 1970 to an estimated 50 percent today.

Multi-national companies have grown significantly in the last two decades and have made their presence felt. In Canada, foreign-owned corporations own 40 percent of our mining industry, 65 percent of our oil and gas industry and 48 percent of our manufacturing industry. Of the 50 largest companies in Canada, 18 are foreign controlled. Non-resident ownership and control on this scale is, of course, without parallel elsewhere in the industrialized world. By contrast, of the 50 largest firms in Japan, none are foreign controlled.

In Brazil, foreign control levels are considerably lower than in Canada--about 15 percent in such important sectors as chemicals, automobiles, steel, food processing, communications and electrical equipment. Canadians have been active participants in the Brazilian economy. After the United States, Brazil is the second largest recipient of Canadian foreign investment. Large Canadian transnationals such as Brascan, Massey-Ferguson, Noranda and Alcan, to name only a few, have long worked with Brazilians to enrich the economic and trading relationships between our two countries.

The proliferation and growth of the transnationals have not gone unquestioned. Throughout the late sixties until the mid-seventies there was a great deal of international questioning, and embryonic attempts to develop an

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international discipline and management of direct foreign investment were started. Critics focussed on such concerns as the effects of transnationals on the balance of payments of host countries brought about through patriation of profits and transfer pricing mechanisms. They looked closely at their impact on social development, investment and employment patterns, the degree of industrial competition, and on consumer tastes. At the same time, there were a few startling exposés of unwise or unlawful interference in the domestic political processes of host countries.

These difficulties pointed to an urgent need for clear guidelines for transnational corporations. The U.N. has established a Commission and Centre on Transnational Corporations which in 1977 began to elaborate a code of conduct for such firms. Likewise, the Organization for Economic Cooperation and Development (OECD) has been working on guidelines for transnational behaviour along with concepts for the appropriate behaviour for host governments towards foreign investors. Clearly these endeavours must now be given a higher priority.

The need for multilateral action originally arose from a recognition that prospects have never been brighter nor the need greater to develop a more constructive international understanding about direct investment. At the same time, trends in international development and investment are becoming more varied and complex.

Despite earlier fears, investment flows have now become more balanced among OECD countries, thus reducing fears that U.S. corporations were about to buy up the world. At the same time, the U.S. has itself become an important host country for foreign direct investment.

Likewise, there has been a general increase in the number of host and home countries outside the OECD area and in the number of transnational corporations based in developing countries. In particular, the newly industrialized countries have developed a larger stake in creating a positive climate for direct investment.

In some other countries, the situation is quite different. Multinationals are attracted to better-off developing nations, and direct investment flows to less-developed countries are insufficient to resolve their problems of under development. Only one-quarter of total

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foreign direct investment is directed to developing countries.

This outcome has relevance for programs of official development assistance, and emphasizes dramatically its importance in the development process. The truth is that although direct investment in developing countries during the last decade has increased faster than the growth in official development assistance, it has actually declined as a proportion of the annual flow of resources from OECD countries to the Third World. It thus becomes abundantly evident that international direct investment cannot replace development assistance but can only supplement it.

Another complexity in the international foreign investment picture is the role played by states with a centrally planned economy. In such countries, foreign investment is generally restricted to minority shares, so that the level of foreign investment usually remains at a low level. But many state-controlled corporations in these countries have themselves become transnationals. They, too, then must be factored into the rules of the game of international direct investment.

In such a complex and changing investment environment, how can we usefully strengthen international cooperation? It seems to me that we have to link two elements. One is the responsibility of host governments to ensure that foreign investment contributes to national development. The other is the assurance that risk-taking transnational corporations are accorded fair treatment and the possibility of a reasonable return. That, in essence, is the basis of Canadian policy in this field.

We also think that governments should refrain from applying their laws to affiliates of transnational corporations which operate outside of that nation's jurisdiction. We believe that restrictions on licensing, limitations on freedom to export, procurement policies which favour overseas suppliers rather than competitive domestic sources, or the concentration of research and development in the transnational's home country are practices which should be avoided.

A case in point is the recent unfortunate U.S. decision to restrict the export to the U.S.S.R. of oil and gas equipment produced by foreign subsidiaries of U.S. companies. Such unilateral, extra-territorial application of U.S. law is unconscionable and can only hurt international investment flows and development. The U.S. should reverse this decision as soon as possible. I feel sure that foreign companies operating in the U.S. are expected to abide by U.S. laws and policies. We who are hosting U.S. companies demand no less respect for our domestic laws and policies.

We recognize that greater understanding is essential to making progress in this field of foreign investment. And many aspects require considerable study. We need better international understanding of investment incentives, particularly at a time when there is much scrambling among nations to attract new investment. We have to try to reduce the costs of competitive investment incentives offered to transnationals, at the same time working for a more equitable division of the world's investment resources. Canada endorses the work of the World Bank and the OECD in this area.

In conclusion, Mr. Chairman, I want to stress that, for Canada, the evolution of an effective international regime for direct investment is an essential part of economic development and the North-South challenge. We believe our primary goal must be to ensure that transnational corporations are given an opportunity to contribute to world development through their dynamic profit-making activity and to ensure that the benefits derived from their activities contribute to rational global development. To achieve this, we must work towards balanced international cooperation in order to achieve a more constructive investment climate.

I believe that if we can produce clear rules of understanding and conduct for host and home governments as well as transnational corporations, we will have made a significant contribution to a more rational and balanced world development.

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