Canada and Foreign Direct Investment in North America

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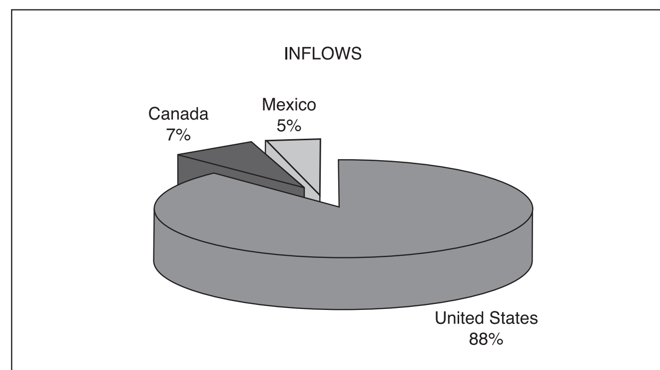
Foreign direct investment has been a very dynamic, strategic mechanism in processes of international capital restructuring, as reflected in the great importance that corporate acquisitions and mergers have had since the 1980s, particularly in developed countries.[1] We must also remember that, today, worldwide foreign direct investment implicitly includes global trade because of the close ties between the two. This is not only because of the increasing weight of multinational corporations in international trade flows, but also because of globalized production processes, international subcontracting and the new forms of organization of production with a world division of labor and intrafirm and interfirm trade on a world scale that increasingly connect investment and trade.

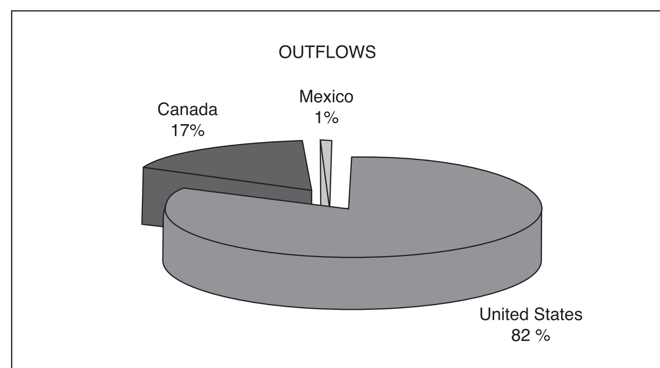
The United States has played a fundamental role in the world economy as a provider of foreign direct investment (FDI). In fact, during the post-war boom that brought U.S. economic predominance, its direct investment abroad became a central instrument for consolidating its hegemony and establishing its leadership.

Canada and Mexico have both been closely tied to the United States, not only geographically, but because they tended to gravitate around the U.S. economy for much of the twentieth century, and nothing seems to indicate that the twenty-first century will be much different. The participation of both Canada and Mexico in the North American bloc has been asymmetrical with regard to the enormous U.S. economy.

Foreign trade statistics are particularly revealing, since both Canada and Mexico make more than 80 percent of their inter-

GRAPH 1
FOREIGN DIRECT INVESTMENT FLOWS IN NORTH AMERICA (1998)
(Percentages)





Charts developed using data from the UN *World Investment Report* (1999).

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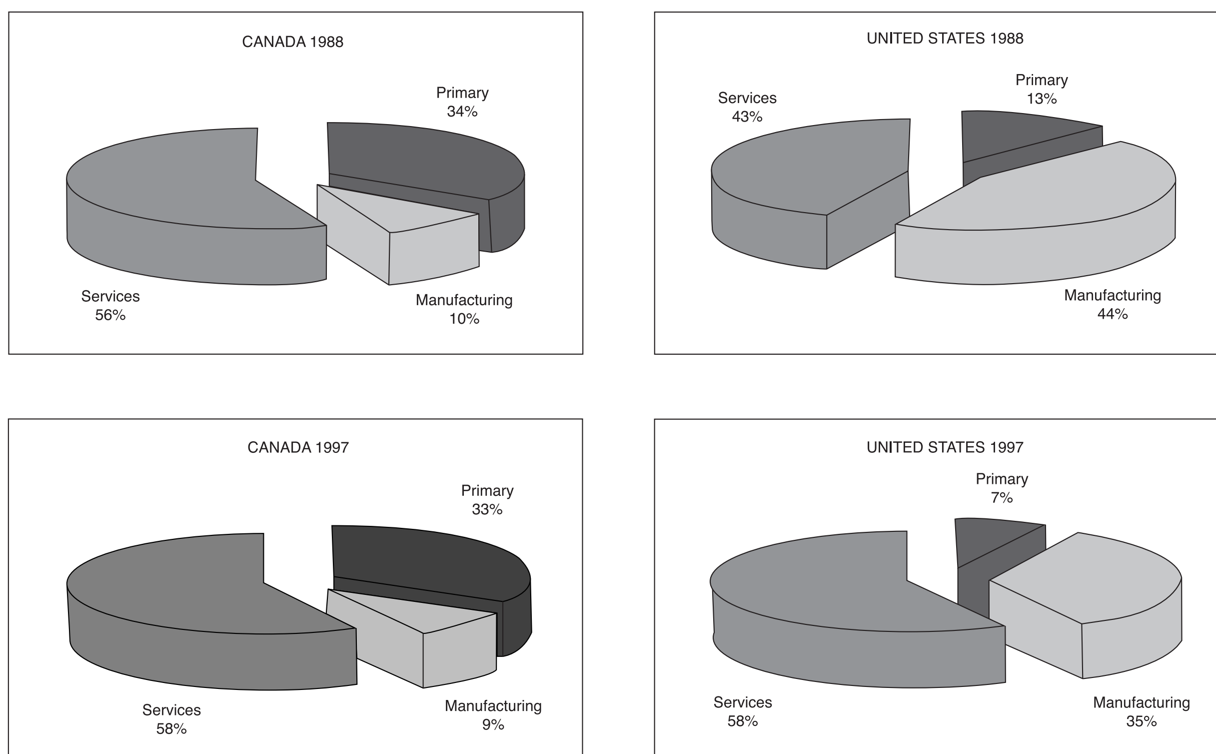
GRAPH 2
FOREIGN DIRECT INVESTMENT OUTWARD STOCK BY INDUSTRY, CANADA AND THE UNITED STATES
(Percentages)



Charts made using data from the UN *World Investment Report* (1999).

national sales to the United States and the lion's share of their foreign investment comes from the United States. In addition, the U.S. economic cycle is increasingly a determining factor in the evolution of the economies of the United States' neighbors both to the north and the south.

Nevertheless, Canada's and Mexico's relationships to the world economy are different, which can be seen if we analyze the role each plays in investment in the rest of the world.

Graph 1 shows incoming FDI in North America in 1998 as well as investment made abroad by Canada, the United States and Mexico, including intraregional FDI in both cases.

It is immediately clear that the U.S. role is overwhelming, both in terms of incoming and outgoing FDI. If we look at the role played by Canada and Mexico as targets for world investment, we see that for the same year, 1998, Canada received 7 percent of the FDI in North America and Mexico, 5 percent.

While this difference is not considerable, the panorama changes when we examine the role played by both countries as providers of FDI. Mexico provided 1 percent of all FDI originating in North America, while Canada contributed 17 percent. Canada has an increasingly important role as an international investor. Thus, we can see that Canada and Mexico receive a similar amount of FDI, but there is a very important difference in the investment each makes abroad.[2]

One important factor that explains these differences is the degree of development of each country's multinational corporations. Canada has very large multinationals like Northern Telecom, Noranda, Bombardier, Alcan and Seagram. In fact, the United Nations *World Investment Report* for 1997 puts Seagram first in the world's top transnational corporations list in terms of degree of transnationality.[3] The Canadian company Thomson Corporation rates third on the same list.[4]

Along these same lines, in an interesting work about FDI in Canada, Alan

Macpherson says, "Major Canadian manufacturers such as Northern Telecom continue to employ more production workers in the United States than in Canada, domestically owned resource companies such as Alcan and Noranda have become familiar names in southeast Asia, and such retailers as Safeway and People's Jewelers now earn significantly more from their foreign operations than from indigenous sources."[5]

In contrast, Mexico's multinationals are less developed: it has only a few notable multinationals, among them Cemex, a cement producer, and Televisa, which has managed to place its television programming internationally.[6]

It is interesting to note that Canada rates high on the United Nations' Transnationality Index of Host Countries.[7] The following table shows that Canada is in second place, surpassed only by Great Britain, among the world's seven most industrialized countries.

Transnationality Index of Host Countries

Country	Percent
Great Britain	16
Canada	14
France	9
United States	6
Germany	5
Italy	5
Japan	1

Source: United Nations, *World Investment Report* (1999).

Graph 2 shows foreign direct investment by the United States and Canada by industry. It is important to note that in both countries, investment is dropping in manufacturing and increasing in services, although to differing degrees, given that the change is greater for both in the United States.

Another salient point is that Canada has invested a considerable amount in natural resources abroad. From 1988 to 1997, this kind of investment only dropped one percentage point, to 33 percent, while only 7 percent of U.S. direct investment abroad was in the primary sector in 1997.

Canadian interest in this sector is not surprising since Canada is rich in raw materials itself and is an important raw material processor and exporter. Nevertheless, the situation has changed to the extent that Canadian corporations have made important foreign direct investment in companies representing a great variety of other kinds of productive activities.

Canadian capital has actively participated in these processes of world concentration and centralization of capital, which has made for changes in property patterns and traditional forms of business organization. In 1998 alone, the following Canadian companies were involved in major acquisitions worldwide: Northern Telecom, Ltd. acquired Bay Networks, Inc., in the United States; Teleglobe, Inc. bought out Excel Communications, Inc., of the United States; Canadian National Railway Co. secured Illinois Central Corporation, of the United States; Epic Energy, Inc. purchased Dampier Bunbury of Australia; and Placer Dome, Inc. acquired Getchell Gold Corporation of the United States.

However, the purchase of Canadian companies like Connaught Laboratories, Leigh Instruments, Lumonics and Mitel by foreign firms has caused some concern because they are all technology innovators. In recent decades, the development of technology has been a central concern of the Canadian government, aware of its importance in maintaining standards in international competition. VM

Notes

[1] The author would like to thank Marcela Osnaya for her help in developing the graphs for this article.

[2] It is important to point out that Canada has traditionally received much more foreign investment than Mexico. This is clear if we compare the overall stock of FDI, which gives us a more long term understanding than just looking at flows. In 1980, for example, the accumulated FDI in Canada came to U.S.$54.149 billion, while Mexico's was U.S. $8.105 billion. To the extent that globalization has deepened world economic links and Mexico has begun to occupy a more important place in the international economy —largely because of its entrance into NAFTA— investment flows to Mexico have increased noticeably. For more details about the overall stock of investment, see the United Nations *World Investment Report* for 1999.

[3] This corporate transnationality index is developed on the basis of three ratios: foreign assets/total assets; foreign sales/total sales; and foreign employment/total employment.

[4] United Nations, *World Investment Report* (1999), p. 83.

[5] Alan D. Macpherson, "Shifts in Canadian Direct Investment Abroad and Foreign Direct Investment in Canada," John N.H. Britton, ed., *Canada and the Global Economy* (Montreal: McGill-Queen's University Press, 1996), p. 69.

[6] Edgar Ortiz, "NAFTA and Foreign Investment in Mexico," Alan Rugman, ed., *Foreign Investment and NAFTA* (Columbia, South Carolina: University of South Carolina, 1994), p. 163.

[7] The Transnationality Index of Host Countries is the average of the following four items: FDI inflows as a percentage of gross fixed capital formation for the last three years; FDI inward stock as a percentage of GDP; value added of foreign affiliates as a percentage of GDP; and employment of foreign affiliates as a percentage of total employment. United Nations, *World Investment Report* (1999), p. 17.