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Canada's Multinationals: A Study In Outward Foreign Direct Investment

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CANADA'S MULTINATIONALS: A STUDY IN OUTWARD FOREIGN DIRECT INVESTMENT

by

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Abstract

Regarding the foreign direct investment (FDI) situation in Canada, most of the attention has historically been centred on incoming rather than outgoing controlling capital. Yet, the activities of Canada-based multinational enterprises (MNEs) have fostered an impressive outflow of direct investment abroad to foreign localities.

To appreciate the importance of Canada's MNEs, it is compulsory to understand the spatial and functional characteristics of Canadian parent companies and their foreign direct investments. To realize this goal, a sizeable sample of over 20,000 examples of Canadian FDI (at various points in time) has been retrieved and subsequently agglomerated into a data set. From there, with the use of a regression analysis (and with considerable reliance on the resulting outliers), an effort was made to decipher some determinants of Canadian MNE behaviour.

Not only was it found that the largest MNEs in Canada are heavily biased towards foreign markets, but that the relative importance of their economic activities abroad (as measured in employment and sales estimates) typically outweighs direct investment inflows into Canada in contemporary times. Spatially, the favourite target of Canadian outward FDI is clearly the United States and then the United Kingdom, but significant agglomerations of Canadian controlling capital can be found in many parts of the world (particularly in Western Europe, the Caribbean region, Australia, Brazil and in various Asian destinations). In general, manufacturing, financial and mining activities constitute the most important functions of Canadian multinationals abroad. This pattern of functional emphasis, however, does vary considerably with each specific location.

It was also found, through statistical substantiation, that Canadian direct investment is most attracted to: large foreign markets, countries that are well-established trading partners with Canada, and to locations

with favourable labour and social well-being conditions. Evidence was also established that countries with strong historical ties with Canada and with positive political attitudes towards FDI are likely to receive a disproportionate amount of Canadian FDI as well. Finally, the force of distance (particularly when making U.S.-bound investment decisions) is still apparent.

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Chapter 1 - Introduction

On a global scale, Canada's contribution to international capital accumulations is not large when compared to the world's dominant economic players - specifically, the United States, the E.E.C. and more recently Japan. Yet, in terms of significance to the domestic economy, the issue of Canadian capital outflow becomes considerably more important when it is analyzed from a national perspective (Rugman and McIlveen, 1985, pp. 27-32).

When considering the many theories that describe the merits of foreign direct investment (FDI) and the international exchange of capital, a wide spectrum of conceivable outcomes have been detailed. Depending on the literature consulted and the situation examined, the ramifications of FDI can range from extremely beneficial to thoroughly disastrous for either one of the host or home countries. Similarly, as the business-oriented behaviour of various multinational enterprises (MNEs) is not homogeneous, neither are the models that have been put forth to explain why national firms go international with their operations. In the past, the only means of analyzing Canadian MNEs has been via an American or European application to the FDI question. Or, if the foreign direct investment question was applied to the Canadian situation at all, the emphasis was overwhelmingly on incoming direct investment and its effects on the nation.

Eventually, through the work of scholars such as Alan Rugman (who has arguably been the leading researcher in the 'Canada-specific' component of FDI studies) and others, it was established that the outflow of Canadian controlling-capital is quite significant (and at times even exceeds the inflow). As a result, some effort was made to provide information on: where Canadian MNEs invest over space, the types of activities they are involved in, and the various determinants that induce companies in Canada to go international with their operations. Most of these studies, however, have given a less than complete view of outward Canadian direct investment. Typically, there has been an over-reliance on

questionnaire surveys to satisfy data requirements. Such an approach, which usually yields a small sample size, has led many Canadian FDI studies to be: heavily-biased towards only the case of large Canadian multinationals, limited in spatial scale, and/or lacking in statistical (or objective) substantiation when determining the motives for outward Canadian FDI.

By using a data set that includes MNEs of all size and function, the intent of this thesis is to append the literature by: providing a comprehensive temporal, spatial and functional view of Canadian direct investment abroad and then to explain the derived pattern of investment with the use of a regression analysis. The framework of the thesis is as follows.

The next chapter is a two-part literature review. In the first section, many of the classical (more theoretical) FDI models are presented. In the second section, a selected assessment of the empirical work done within the FDI field (in which applying and testing the theoretical models has been the typical emphasis) is offered. Care is taken to highlight those empirical studies that have considered the specific case of outward Canadian direct investment.

Chapter 3 and Chapter 4 provide the results of this study's aggregated view of Canadian direct investment abroad. Four general themes are explored in these two chapters as an attempt is made to determine:

1) Where Canadian MNEs are locating subsidiaries,
2) The type of economic activity that these firms specialize in,
3) If any of the noted spatial and/or functional trends have tended to change over time, and
4) The 'importance' of Canada's foreign affiliates (as measured by sales and employment in the foreign destination).

The difference between Chapter 3 and Chapter 4 is the spatial scale of assessment. In Chapter 3, Canadian direct investment is analyzed from an international perspective; whereas in the chapter following, the more specific case of Canadian direct investment in the United States is provided.

In chapter 5, an attempt is made to account for the spatial trends revealed in Chapters 3 and 4. With the use of a stepwise regression analysis (and with considerable reliance on the residuals), several place-specific attributes that influence the number of Canada-controlled subsidiaries (as situated across the globe and regionally within the United States) are uncovered.

Finally, in Chapter 6, a summary of the major findings of this study is offered along with a brief 'statement' that discusses the possible ramifications that these findings, concerning multinational behaviour, may have for Canada in general.

Chapter 2
The Foreign Direct Investment Option: A literature Review

A considerable amount of work has been done in efforts to better understand the spatial distribution, characteristics and effects of FDI as well as on attempting to more completely address the factors that influence the investment decisions of multinational enterprises. Much of the literature addressing these topics has typically been written from an American, European or, more recently, a Japanese perspective. Foreign direct investment and the activity of multinationals have also been a concern of many Canadian studies but, overwhelmingly, these studies have considered the patterns and effects of incoming, rather than outgoing, direct investment.

With these issues in mind, the literature reviewed in this chapter represents a 'subset' of the large FDI/MNE literature universe and has been carefully chosen to accomplish two general tasks. First, to provide a reasonable explanation for the rise in MNE activity over the last several decades, a synthesis of the many models and theories concerning foreign direct investment is included. Second, to establish a framework for this study, a partial review of the empirical work done with respect to FDI, emphasizing the few studies that have concentrated on outward Canadian direct investment, is offered. Before the presentation of these literature reviews, foreign direct investment is more specifically defined in the following brief section.

2.1) FDI Defined

According to the U.S. Department of Commerce, foreign direct investment is defined as: "the movement of long-term capital to finance business activities abroad, whereby investors control at least 10% of the enterprise" (Poniachek, 1986, p. 21). Any foreign investment, then, with less than 10% controlling interest is generally considered a portfolio investment. Therefore, FDI is distinguished from other types of foreign market penetration by an MNE's intent to control.

These controlled investments in foreign destinations take the form of subsidiaries (incorporated subordinate companies) or branch plants (unincorporated extensions of the parent company). Due, in large part, to more advantageous taxing in many countries, most MNEs will option to incorporate subsidiaries in foreign locales. In addition, such as in the United States for example, incorporated subsidiaries are treated as separate and distinct business entities and therefore much liability is insulated from the parent. Branches, however, expose the parent to liabilities not only in terms of taxation but also in the amount of information that is necessary for disclosure (Reavey, 1988, p. U-42).

The formation of subsidiaries or branch plants can be accomplished in several ways. For instance, an investor can choose to service a foreign market directly by building a new subsidiary or branch plant (this is known as a 'greenfield' investment). Alternatively, FDI can be facilitated through either a merger or an acquisition in which the controlling stock of an already existing foreign corporate entity is purchased. A joint venture, where two or more investors control a foreign company, is another type of FDI and can have either 'start-up'- or 'acquisition'-type beginnings. Often, to gain greater knowledge of the domestic social-economic surroundings, many joint-ventures include an investor from the host country. The potential disadvantage of joint-ventures is that some independent control may be sacrificed as more than one firm can potentially have ultimate decisive power (Business International Corporation, 1989, pp. 46-53). Strategic alliances, which are usually large-scale joint-ventures between long-established multinationals, have become particularly prevalent in the automobile industry but also in high-tech activities (such as in aircraft, robotics, consumer electronics, semiconductors and pharmaceutical industries) (Porter, 1990, p. 66).

Depending on what document is consulted, various contractual agreements (such as the licensing of a specific brand name or technology to a foreign business) may or may not be considered FDI. Yet, for the

purposes of this discussion, licensing-type arrangements between a multinational enterprise and a foreign business entity (or between multinationals within a strategic alliance agreement) will not be deemed as 'true' FDI. A licensing MNE does not normally assume control of the foreign operation; it merely rents a component of its 'know-how' or 'status' for a predetermined period of time (Rugman, Lecraw and Booth, 1985, p. 90). In essence, these licensing contracts should be considered a form of portfolio investment that, at times, are the beginning of the internationalization process that may eventually lead to FDI (as Figure 2.1 displays).

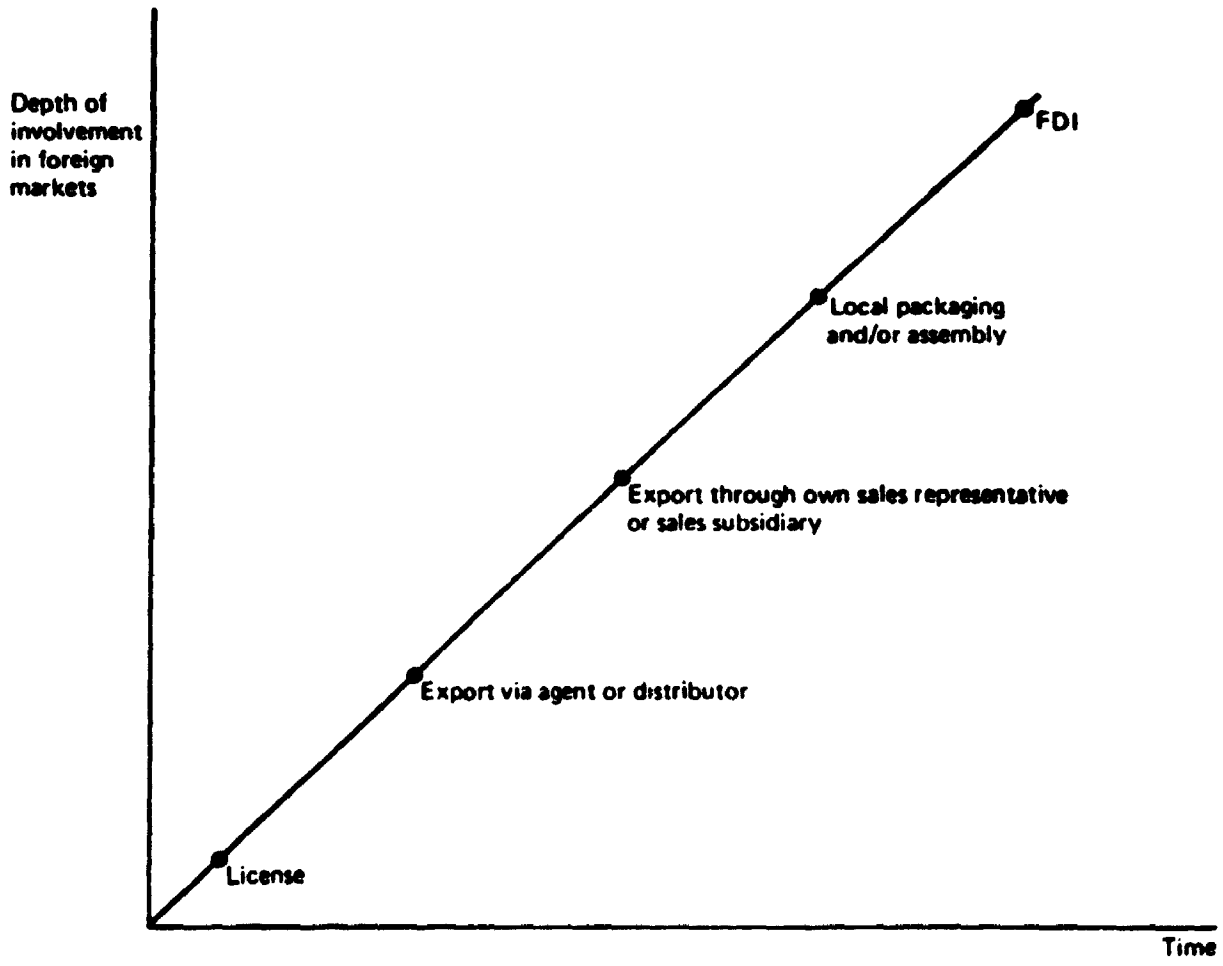
The rapid growth of all forms of FDI and the expanding role of corporations that service one or more foreign markets in the post World War II era has become increasingly important over time. The average annual growth in the stock of direct investment during the 1970s was around 22 percent and by 1984 the global book value of direct investment was estimated at $600 billion (Poniachek, 1986, p. 1). Poniachek also found that most (nearly three-fourths) of direct investment is in OECD (Organization for Economic Cooperation and Development) countries with the remaining 25 percent or so being centred in LDCs (Less Developed Countries).

Since the mid-1970s, multinationals have continued to grow in importance. Carnoy (1993, p. 49) found that the sales from the top 50 largest industrial multinationals grew at an average annual rate of 3.5% from 1975 to 1990 ($540 billion in sales to $2.1 trillion, respectively). By comparison,

> . . . the U.S. economy grew at a 2.8% rate over the same period, and the economies of the OECD averaged a 2.9% percent rate of growth. Put a different way, sales of the fifty largest industrial multinationals were 28 percent of U.S. GNP in 1975 and 39 percent of U.S. GNP in 1989 (Carnoy, 1993, p. 49).

This trend towards more intense internationalization of investment (as shown on Table 2.1) has been suggested to be a result of two global developments: an increasing need for growth-seeking MNEs to expand markets and a simultaneous rise in national pressures for protectionism in trade

Figure 2.1
The Internationalization Process



Source: International Business: Firm and Environment. A.M. Rugman, D.J. Lecraw and L.D. Booth (1985), p. 113. (Reproduced by permission of McGraw-Hill, New York, NY).

Table 2.1
Stock of Direct Investment Abroad for Selected Countries
(given in billions of U.S. dollars)

Country	1967	1971	1980	1981	1983	1984
United States	56.5	82.8	215.6	226.4	226.1	230.9
United Kingdom	17.5	23.7	53.6	63.9	72.2	76.2
Germany	3.0	7.3	40.9	45.7	52.2	54.4
Japan	1.5	4.4	32.1	37.0	45.1	51.5
Switzerland	5.0	9.5	31.3	33.0	37.6	40.5
France	6.0	7.3	19.8	24.4	29.0	30.8
Canada	3.7	6.5	19.4	22.5	24.4	26.9
Netherlands	2.2	4.0	28.7	31.9	35.6	37.9
Sweden	1.7	2.4	7.2	7.5	8.7	٨.7
Belgium-Lux.	2.0	2.4	6.3	7.0	8.1	8.7
Italy	2.1	3.0	4.5	5.9	9.1	11.1
All other	4.0	5.1	10.0	11.0	15.0	15.0
Total	105.3	158.4	469.4	516.2	563.1	596.0

Adopted from: Direct Foreign Investment in the United States. H.A. Poniachek (1986), p. 2.

(Gordon and Lees, 1986, p. 9). Although much of the theory explaining FDI and the ever-rising prominence of multinational corporations within the global economy still supports these 'corporate growth' and 'tariff-jumping' ideas, other scenarios have emerged as well. At this point, a more comprehensive discussion concerning why firms invest directly in foreign destinations may be of value.

2.2) Theories of FDI

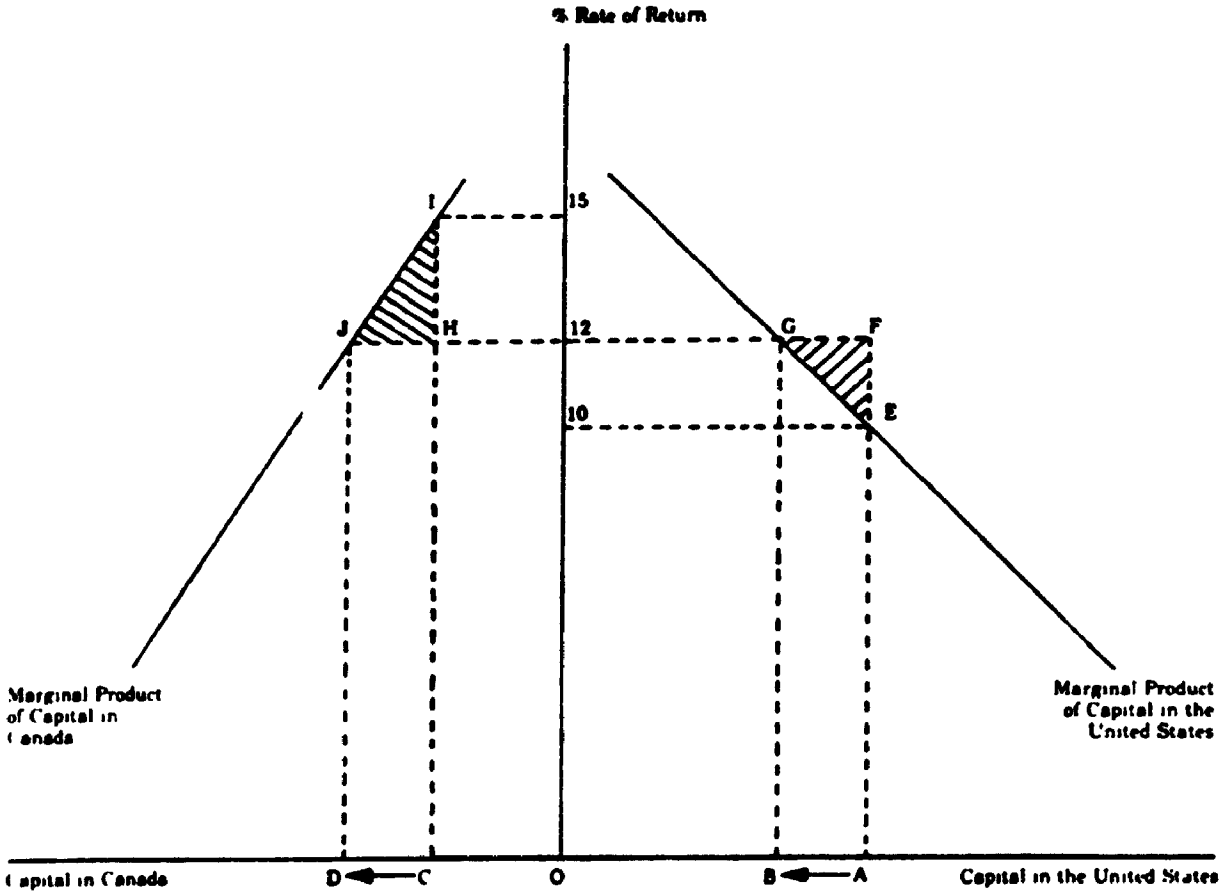
As Calvet (1981, p. 43-56) summarized, models concerning FDI have evolved from a market-oriented deterministic view of direct investment (popular in the 1960s) towards a more firm-specific approach where the rationale for FDI was modelled to be a result of an MNE's inherent drive to access and retain knowledge. The general intent of this section is to detail this evolution. Initially, using Calvet's synopsis of the 1960 to the late 1970s literature as a framework, a chronological view of how FDI theory has evolved will be provided. Then, going beyond Calvet's time-frame, sections will be included that highlight the most recent refinements made to the established body of FDI theory.

2.2.1) FDI as a Response to Market Failure

Those who have hypothesized that FDI is generally a response to market disruptions (Hymer, 1970; Kindleberger, 1969) are operating under the premise of neoclassical economics and are thereby assuming that foreign direct investment could not exist in a purely competitive world market. As there are many barriers to trade (with tariffs being the most noteworthy), it can be suggested that the ultimate role of the multinational enterprise is to move markets towards equilibrium through the efficient allocation of capital. Whether these market imperfections are created through natural or government induced criteria, Figure 2.2 provides a theoretical explanation why FDI encourages international efficiency.

If it is assumed that interest rates and profits accurately reflect

Figure 2.2
The Impact of International Capital Flows



Source: The Canada - U.S. Capital Market. R.M. Dunn (1978), p. 15. (Reproduced by permission of the National Planning Association, Washington, DC).

the marginal product or real rate of return to capital then, in a situation where these rates of return are not equal between countries, there are opportunities for gains in efficiency through movements of capital from the low- to the high-return economy (Dunn, 1978, p. 15). In the illustrated situation, it is assumed that the capital in question has a yield line that is steeper in Canada than in the United States. This is to imply that an equally valued investment in either country will yield a higher rate of return in Canada (15% as compared to 10% in the U.S.). This discrepancy is solved by movements of American investment (portfolio and/or direct) into Canada that will continue until rates of return in both countries are equal (as shown at 12%). At this point, the system is in equilibrium and, more importantly, both countries gain from the efficient use of international capital (displayed as the sum of triangles EFG and HIJ).

This theoretical explanation justifying international capital flows uses return to capital (or profit) differentials between countries as the basis for the argument. Yet, cost of labour discrepancies (Calvet, 1981) and currency valuation differences (Ragazzi, 1973) between countries have also been used to explain, particularly direct, capital flows. Which is to say that in theoretical terms, countries featuring comparatively low wages or a devalued dollar (with all else being equal) can be expected to be net-receivers of incoming direct investment until such levels are equated.

Because of these arguments "there is a strong presumption among economists that capital mobility is a good thing and that controls on capital flows are as inefficient as restrictions on trade" (Dunn, 1978, p. 14). Capital flows can be retarded by various structural and non-structural differences between countries. Differences in country-wide corporate tax rates and, particularly, political regulations on FDI (as discussed in a later section) are two typical barriers to the 'free' flow of international capital.

This notion that direct investment serves to allocate resources to

their most efficient use when the forces of the free-market are disrupted from doing so is merely one possible explanation for the investment activities of MNEs. For, there is considerable support for the idea that FDI is complementary to, and not necessarily a substitute for, foreign trade even if excessive barriers (such as tariffs) do not exist between nations. It is thought by many analysts that countries trading most with each other will retain the same 'investment-partners' as well. Presumably, the uncertainty associated with foreign direct investment can be reduced when it involves well-entrenched trading partners (Kojima, 1978, pp. 99-131; Rugman, 1990, pp. 30-35).

2.2.2) FDI and Welfare Implications (The Oligopoly View)

Harry Johnson (1970) considered the FDI question from the point of view of how the international exchange of knowledge affects, particularly, a host country's welfare. Central to Johnson's arguments was the idea that corporations likely to participate in foreign investment will behave in an oligopolistic/monopolistic fashion. This view was supported by Caves and Jones:

> The marginally successful firm is not likely to have either the intangible assets or cash resources for profitable foreign investment; furthermore, gathering the information to start a foreign subsidiary is itself costly and likely to appeal only to a firm willing to stake a large investment abroad. Hence we deduce oligopoly as another trait likely to mark the industrial setting of firms making direct investments (1985, p. 191).

Because of the cohesive nature of oligopolies and their ability to anticipate the actions of like sellers in the market (particularly if the number of suppliers is few), there are welfare losses associated with an oligopoly industrial structure. These welfare losses, as it applies to FDI theory, can be best described as the sub-optimal use of technology transfer between a multinational corporation and a host nation. Although, "it is generally recognized that the transplantation of superior technical and managerial knowledge is most probably beneficial to a country receiving foreign direct investment" (Johnson, 1970, p. 459); these welfare benefits are reduced in an oligopoly-type market.

Again, using economic theory it can be demonstrated why monopoly-

type pricing is not optimal (as shown on Figure 2.3). Oligopolies (like monopolies) are price-setters rather than price-takers within the marketplace and as a result can produce to their own most profitable level; which happens to be where marginal revenue equals supply. Yet, this level of output does not maximize efficiency (which is where demand equals supply), and the difference is a net-welfare loss to society (essentially triangle C). The ramifications of this inefficiency from an FDI perspective are twofold. First, the production and use of knowledge that a private enterprise brings to a host nation are being under-exploited (the difference between Q_s and Q_m) and, second, the MNE is reaping more profit from the exchange than would the 'free-market' allow (in the sum of P_m less S). Thus, on the strength of this reasoning, popular opinion often dictates that the MNE gains more from its firm-specific 'know-how' than does the host nation through technology transfer.

Johnson identified other welfare losses that the host country may realize through oligopolistic FDI including:

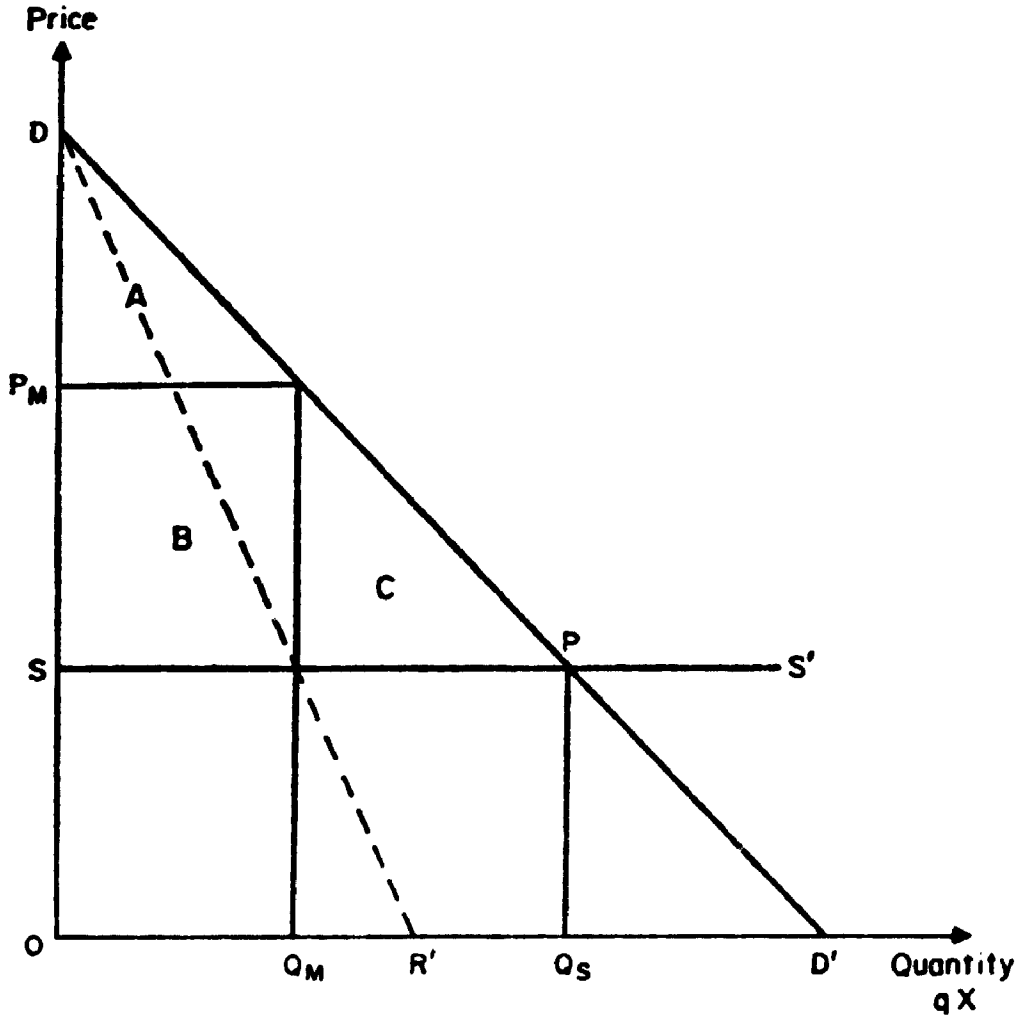
1) That poorer countries experience more of an efficiency loss from FDI (because their demand curve is more elastic for knowledge) than do richer countries and therefore the disparity gap between nations is potentially widened with increased direct investment,

2) That foreign firms will frequently employ their own nationals, rather than local residents in top positions, and

3) That the domination of foreign firms in the most technologically advanced sectors of a host nation's industry can create resentment especially from the standpoint of national sovereignty and control (1970, p. 459-462).

Yet another concern that has been voiced by many host governments regards the potential link between FDI and balance of payment problems. In that, as the accumulated stock of foreign direct investment in a country grows, the outflow of annual dividend and interest payments to foreigners becomes larger as well. Of course, the difference between the inflow of new assets into a country and the accumulated outflow of interest and dividend payments need not always result in a negative balance. The situation will vary from country to country (Vernon and Wells, 1991, p.98).

Figure 2.3
Optimal and Monopoly Pricing



Source: "The Efficiency and Welfare Implications of the International Corporation". H.G. Johnson (1970), p. 457. (Reproduced by permission of MIT Press, Cambridge, MA).

Two clarifications need making at this point. First, those that were researching within this era of FDI study (such as Johnson) were not necessarily advocating that direct investment from abroad should be discouraged. Rather that the gains accruing from FDI (through added knowledge and capital, increased demand for local inputs and employment, and entrepreneurship) are associated with social costs in the host country (Hood and Young, 1979, p. 181; Carnoy, 1993, p. 58-62).

Second, that these social and economic gains and liabilities created by FDI activity are not just applicable to the host country; home country effects are equally deductible. While it is generally accepted that outward FDI signals that a country's domestic firms are competing efficiently within the international economy (Porter, 1990), it has been claimed (by many American-based studies) that by not setting-up these assets in the home nation, jobs and economic activity are being 'transferred' to foreign countries. The true degree of this 'loss', however, is debatable. Often direct investment abroad will open new markets to which the parent company will export and thereby contribute to national welfare through increased domestic output (Caves and Jones, 1985, p. 196). More will be said concerning the role of the home country later in this discussion.

Vernon's 'product cycle' model (first introduced in 1966 and then further developed in 1977) provides another theory that can be used to explain why oligopolies invest in foreign countries. The emergence of this model also marked a subtle theoretical shift towards the 'theory of the firm'-emphasis that was to emerge full-blown in the FDI literature a short time thereafter. Vernon suggested that a product will go through three stages in its life-cycle. It is after the first stage (where the unstandardized product is produced only at home and exported to foreign markets), that FDI becomes a necessary outgrowth of a maturing oligopoly (see Table 2.2). Within this second stage, the product becomes fairly standardized and the company internalizes its innovation by becoming multinational and setting up subsidiaries in foreign locations. By the

Table 2.2
Vernon's Product Cycle and its Relevance to FDI:
A Summary of 1966 and 1977 Models

Time 1	Time 2	Time 3
Emerging oligopoly	Maturing oligopoly	Senescent oligopoly
New product	Maturing product	Standardized product
Export product	Set up foreign subsidiaries	Set up foreign subsidiaries and/or license
Produce at home	Produce in both home and host countries	Produce only in host country and import back home

Adopted from: International Business: Firm and Environment. A.M. Rugman, D.J. Lecraw and L.D. Booth (1985), pp. 115-17.

third stage, the product is completely standardized and uniform enough for competitors to 'copy' the innovation and the oligopoly's firm-specific advantage becomes eroded. This last stage has also been described as an 'oligopolistic reaction' phase, a term first introduced by Knickenbocker (1973), where other companies in the same sector will soon follow the innovative company into FDI pursuits to remain competitive (Niosi, 1985, p. 14).

The 'product cycle' theory was originally developed to rationalize the dominance of American direct investment abroad.

> The United States, having a large market and the highest per capita income, is normally the place where new products are introduced first. In the initial stage when the product is not yet standardized, development of a new product requires close contact with the market, and production is, therefore, concentrated in the United States even if production costs in other countries are lower. When the product is established in the U.S. market, the U.S. company starts exporting it to other countries where demand initially is inelastic. Later, however, as demand in foreign countries grows, and production may be easily located outside the United States because techniques are standardized, the U.S. company is induced to invest abroad (Ragazzi, 1973, p. 52).

As a product matures, an oligopoly is more inclined to set up production facilities abroad. At this point, therefore, FDI is not only a way for the corporation to pursue growth-related goals but, since the product has been previously introduced to foreign markets via export, a necessary manoeuvre that needs to be undertaken to keep foreign markets secured from local and/or other competitors. Hence, FDI in this situation can be described as both an offensive and a defensive industrial strategy.

2.2.3 Theories of the Multinational Enterprise

The final FDI/MNE phase that Calvet summarized relates to a revamping of an old area of economics known as the 'theory of the firm'. Although market imperfection ideas remain fundamental to foreign investment study, there has been a more recent shift in emphasis away from FDI theory to specifically understanding the nature of the multinational firm. As Dunning (1979, p. 274) claimed, this is more than just a subtle change of label; it is a "switch in attention from the act of foreign direct investment to the institution making the investment".

Reuber (1973, pp. 73-81) provided an adequate classification scheme

that justifies FDI from the perspective of the multinational enterprise. He saw a MNE's decision to invest directly as originating out of three control-based motivations: either the investment decision is export-oriented, market development-induced, or government-initiated.

A multinational firm that invests with an export-oriented ploy is typically attempting to secure new sources of inputs. Often these inputs are in the form of raw materials or component parts, but can as well be finished products. Investments such as these are often made in LDCs where cost-savings can be realized through relatively less expensive labour and/or abundant resources. Interestingly, in this scenario, the MNE is often not inclined to service the host country's market at all.

> Generally, such foreign investors are mainly interested in extracting the product in question from the host country and selling (exporting) it through established market channels (Reuber, 1973, p. 73).

Thus, in export-oriented FDI, the firm's over-riding motivation for making the investment decision is to protect or improve its competitive position through more cost-effective vertical integration.

In contrast, the distinguishing feature of the market development-type of investment is to unambiguously cater to the host market (or to horizontally integrate its operations). As a result, host-specific considerations (such as the size of the local market and its long-run potential, local production costs, tariffs and trade controls, taxes, subsidies, and so forth) become vital issues for the MNE. Essentially, FDI takes place to develop (or to compete within) the foreign market often through the implementation of a new technology. Because of this and the fact that profit is not usually realized in the short-term of this long process of market development, this type of investment is often cited as the 'healthiest' form of FDI because of the MNE's inclination for a more long-term relationship with the host country.

The third classification of FDI as identified by Reuber is government-initiated investment where the MNE is enticed into the host nation via some type of government subsidy. Clearly, this is a regional development strategy closely akin to the growth-pole analogy and is meant

to increase employment opportunities, add to domestic output, and stimulate the economy through linkages to other sectors and activities (Reuber, 1973, p. 78).

In efforts to improve the national level of well-being, it has often been the case that governments of LDCs have pursued a policy of encouraging external investment - even if it has meant forgoing some control over the domestic economy. The use of industrial incentives aimed at foreign investors has not been limited to just LDCs. Many state governments in the U.S. have been highly competitive in their pursuit of foreign capital and, as such, have offered extensive business incentive packages (such as tax grants and 'soft' loans) (Price Waterhouse, 1993f).

Thus, there are different reasons for corporate FDI, but whatever the motivation, certain conditions must exist before investing abroad is a viable option. In what is called the "Eclectic Approach to the Theory of FDI", John Dunning (1977) provided a consolidation of the literature and specified a set of conditions that are required if a firm is to engage in FDI (see Rugman, Lecraw and Booth, 1985, pp. 117-20). According to Dunning's model, a firm is theoretically unlikely to invest directly in a foreign country if any one of the firm-specific, internalization or country-specific advantages is not intact.

The notion of a multinational's firm-specific advantage(s) (FSAs) has been referred to throughout this chapter but not specifically defined. FSAs, according to Dunning, are largely in the form of intangible assets (such as knowledge or ideas) and are exclusive to the firm possessing them. Such advantages could include: a unique technology (that improves production or distribution), large company size (most multinationals are large and efficient through economies of scale cost savings), or the contributions of a key manager (sometimes a company's true advantage can be traced back to the actions of one extremely dynamic individual). In general terms, a FSA can be thought of as some 'competitive edge' that a would-be direct investor has vis-a-vis other like firms operating in a given foreign destination. Essentially, it is this firm-specific

advantage (in some form or another) that gives multinationals the ability to compete with local firms and therefore the inclination to keep it privately known (through internalization).

The idea of internalization has also been previously alluded to within this literature review and Dunning specifically related it to the multinational's unique ability to insulate its FSA from competitors. This can be achieved through trademarks and patents but is also attainable by, as MNEs are apt in doing, establishing foreign subsidiaries and enclosing the production and/or distribution process (through vertical and/or horizontal integration).

Another advantage of internalization, beyond protection of the FSA, has to do with transfer pricing (or the 'price' that is set on product, capital or royalties inter-flowing among parent and subsidiary entities within the MNE). The need for attaching 'prices' to these 'transfers' arises for primarily two reasons. First, in the interest of internal evaluation, to compare the performance of each subsidiary and second, to satisfy differing national jurisdictions with respect to taxation and disclosure to shareholder obligations, to report profits for each subsidiary (Vernon and Wells, 1991, pp. 44-45). As these two goals are often conflicting, there is no single optimal internal transfer price.

There is, however, often an inherent motivation for a given MNE to deflect resources away from, and under-price intermediate products within, countries with high tax rates - even if this does not accurately reflect a given subsidiary's level of performance. Contrary to the opinions that have been expressed by many governments, Rugman considered such tactics as justifiable since the MNE is using its 'internal market' to overcome the inefficiencies created by obstructions to the 'free' market.

> If there are no tariffs and international tax rates are uniform between nations, then there would be no incentive for transfer pricing by the MNE. If there were no market imperfections, then 'arm's length' prices would exist within the MNE. However, the need for internalization and the observed exogenous market imperfections of international tax differentials act as incentives for transfer pricing (Rugman, 1980, pp. 87-88).

One more point should be made regarding a multinational's assumed

need to internalization its 'competitive advantages'. This notion makes the implicit assumption that it is more beneficial for the enterprise possessing these advantages to internalize them through subsidiaries than to sell or lease them to foreign firms (such as through licensing, franchising, technical service agreements or subcontracts). If the dissipation of the FSA is not a major concern, or if (using Vernon's 'product cycle' analogy) the product has become completely standardized, then licensing-type arrangements may be a more desirable choice of action (Rugman, Lecraw, and Booth, 1985, pp. 117-118).

Finally, Dunning concluded, once a firm has the ability and inclination to internalize its FSA, it must then decide where geographically it is going set up foreign subsidiaries and consider country-specific advantages (CSAs). Presumably, locations that are most frequently chosen as host sites are those that allow for the most profitable use of a MNE's FSA. A summary of the major determinants of direct investment was provided by Rugman (1980, p. 23) and all (except the last one listed) relate to location-specific advantages. His list of determinants included:

1) The desire to overcome tariff and other barriers to trade,

2) Exploitation of monopolistic advantages, such as in the area technology, management, or research,

3) Large market size in the host economy, which may permit a firm to enjoy economies of scale and to engage in horizontal integration,

4) Lower costs of production abroad, for example, lower labour costs or lower borrowing costs,

5) Possible tax avoidance by manipulation of profits among subsidiaries and by use of transfer pricing,

6) Management reasons such as prestige and empire building.

Beyond this list of FDI determinants, Dunning added that government controls and regulations, cultural criteria and the prevailing political climate all contribute to a given location's attractiveness to foreign investors.

In summary, Dunning predicted that if a corporation has a firm-specific advantage, is able to internalize this advantage, and can benefit

from specific host country attributes; then FDI will occur.

Some multinationals are able to further exploit their firm-specific advantages through strategic alliances. Generally, this is a way of pooling an already vast amount of capital and knowledge to service an even larger portion of the global market (or indeed perhaps all of it) and achieve even greater economies of scale. Such agreements can take many forms, from licensing to green-field joint-ventures, but typically do not dissolve into an actual merger. The advantages that accrue from two firms (within the same industry but stationed in two different countries) teamed by a strategic alliance are similar to those previously described for the 'one-firm' type of FDI. Specifically, along with the economies of scale benefits, strategic alliances also allow for access to local markets or technology, may fulfil local ownership requirements, or may further diversify the risk of foreign investment. Yet, as with all joint-venture-type investments, coordination problems and the ongoing risk of FSA dissipation (which is particularly important if the present partner will be a future direct competitor) remain the obvious disadvantages of these MNE agreements (Porter, 1990, p. 66).

2.2.4) Home Country Efforts and Influences on FDI

So far, much of the FDI/MNE theory outlined in this literature review has emphasized the relationship between the host country and the MNE. Or in other words, the various 'pull' factors associated with direct investment and the subsequent host country benefits and losses. Studies that have considered the 'push' criteria associated with direct investment have generally concentrated on uncovering the business environment 'negatives' of the home country and identifying the conditions that 'force' domestic companies to look elsewhere for investment opportunities. An example of this type of analysis is provided in section 2.3.2 of this chapter as Rugman (1987, pp. 10-27) considered the various push and pull factors that confront the typical Canadian MNE when making U.S.-bound direct investment decisions.

In what has become a revelation of sorts within recent FDI theory

relates to Michael Porter's 'diamond theory' (as described in the 1990 book The Competitive Advantage of Nations) and its almost exclusive reliance on home country conditions in assessing outward trade and direct investment levels. In overall terms, Porter's study was one that attempted to understand the factors that explain why certain countries became world leaders in certain activities. Specifically, he tried to rationalize various national 'success-stories' such as: the Americans in commercial aircraft and motion pictures, the Japanese in semiconductors and VCRs, the Germans in high performance automobiles and chemicals, the Swiss in banking and pharmaceuticals, the Italians in footwear and textiles, and so on (Porter, 1990, p. 27).

Porter's sample of countries was ten in number (Denmark, Germany, Italy, Japan, Korea, Singapore, Sweden, Switzerland, the United Kingdom and the United States) and he estimated each country's international competitive advantage in various activities by either:

> . . . the presence of substantial and sustained exports to a wide array of other nations and/or significant outbound foreign investment based on skill and assets created in the home country. . . (p. 25).

Porter was most concerned with understanding how countries gain and sustain competitive advantages in 'sophisticated' industries because, as he assumed, these are most vital in encouraging high productivity (and therefore higher levels of wealth and living standards) in the home nation.

With respect to FDI, Porter considered outward direct investment to be generally a positive contributor to a home country's level of competitiveness (and conversely, inward FDI as largely detrimental) and that firms that have flourished in the global market are those that have successfully extended their home-based advantages abroad. He agreed that the benefit accruing from a firm's proper selection of host location is important to international success but that home-based advantages are usually more significant (p. 61).

According to Porter, the characteristics of a country (that will either promote or impede a nation's progress towards international success

in a particular industry) can be summarized by the following inter-dependent 'diamond' parameters.

1) Factor conditions - the nation's position in factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry.

2) Demand conditions - the nature of home demand for the industry's product or service.

3) Related and supporting industries - the presence or absence in the nation of supplier industries and related industries that are internationally competitive.

4) Firm strategy, structure and rivalry - the conditions in the nation governing how companies are created, organized and managed, and the nature of domestic rivalry (p. 71).

Porter completed his theory with the addition of two exogenous variables that will inevitably affect the diamond: the role of government and chance. He described chance events as developments outside the firm's control (such technological breakthroughs, wars, or major shifts in foreign market demand). Also modelled as exogenous to the diamond is the prevailing political climate. It was argued that specific government policies can greatly improve or inhibit the national advantage as well. Thus, locations where the 'national diamond' is most favourable will foster companies that are most likely to prosper within international competition.

Ultimately, Porter claimed that countries can be classified along a continuum of national competitiveness where progression through the first three stages (factor-driven, investment-driven, and innovation-driven) is associated with rising national competitiveness and, therefore enhanced prosperity. Whereas, the final stage (wealth-driven) is one where competitiveness eventually declines (pp. 546-560).

The criticisms levied against Porter's work have not so much been concerned with his results (which, by-in-large, have not been reported here), but with some of the assumptions made within his theory. Rugman and Wavel an (1991) have taken issue with the 'diamond theory' in, particularly, two fundamental ways. First, these authors have argued, that the shape of the host country's diamond is also important to the MNE when making direct investment decisions. This seems especially

significant in the case of a multinational that has over 90 percent of its activities centred outside the home country (as happens with some of Canada's larger multinationals) (Rugman and Waverman, 1991, p. 65). Porter's theory, which is highly reliant on home country conditions, surely could not fully explain the investment decisions of this type of MNE.

Second, it is argued by Rugman and Waverman that Porter has a flawed understanding of the nature of two-way FDI particularly with respect to the benefits the host country receives through technology and capital transfer.

> In the Canadian context, foreign capital and technology have added enormously to Canada's assets. Fully 70 percent of Canadian trade is done by 50 multinationals, and half of these are foreign-owned (p. 64).

Thus, because of these inherent flaws (and due to an incomplete understanding of the performance of multinationals in Canada) Rugman and Waverman were unwilling to support Porter's view that Canada is a nation stagnating on the first stage of international competitiveness (because of a presumed over-reliance on resource activities).

There have been many models put forth attempting to explain FDI and/or the actions of MNEs but the theories that continue to be most accepted still have this central idea of firm-specific advantage as it applies to the internalization of knowledge. As Rugman, Lecraw and Booth (1985, pp. 109-115) summarized: whether the MNE is horizontally integrated (servicing foreign markets and profiting through its unique FSA), vertically integrated (securing foreign inputs through its FSA to bypass a host of transaction costs involving supply uncertainties and search costs), or internationally diversified (using its FSA in several foreign destinations, and perhaps in different functions, to reduce risk), it is a multinational's unique ability to internalize knowledge that allows it to competitively benefit from FDI.

2.3) Empirical FDI Studies

The actual application of these FDI theories has been the emphasis of many empirically-based studies that have, collectively, employed a wide array of methodologies in many different settings to answer various FDI concerns. The common thrust of these studies has been to decipher any or all of the following inquiries: where does (at some given spatial scale) FDI settle over space, why do multinationals invest in particular areas and not others, and what effect has direct investment had on given locales (written, at times, from a regional development point-of-view). To provide an exhaustive account of the work accomplished in any of these areas of interest is not the intent of this section. Rather, what will follow is a selected compilation of empirical works included either because of their relevance to the methodology of this thesis (as in the first of the following two sections) or because of an emphasis on Canadian direct investment abroad (which is in keeping with the overall topic of this thesis).

2.3.1) Examples of Empirical FDI Studies

A common feature of FDI spatial studies is the inevitable assessment of foreign investment agglomerations on local economies. Typically, these articles are written from the point of view of FDI's role in regional development and usually an attempt is made at evaluating the effectiveness of such a situation. For example, Dicken and Lloyd (1976) and McDermott (1977) have argued that foreign investment (particularly from the United States) has played an integral role within the United Kingdom's space economy. O'Farrell (1980) utilized a similar 'regional development slant' in his analysis of MNEs in Ireland. Also, the link between FDI and regional development has been frequently researched from the American perspective. Tong and Walter (1980) and Warf (1990) have provided representative examples of such studies but if a more comprehensive literature review of FDI-driven regional development research is desired, Ó hUallachain (1986) should be consulted.

Due to similarities with the methodology of this paper, Michael Ray's (1971) "The Location of United States Subsidiaries in Southern Ontario", Glickman and Woodward's (1988) "The Location of Foreign Direct Investment in the United States: Patterns and Determinants", and Bagchi-sen and Wheeler's (1989) "A Spatial and Temporal Model of Foreign Direct Investment in the United States" will be summarized in considerable detail.

Ray's 'economic shadow' concept was developed by noting the locations of Ontario subsidiaries that were controlled by parent firms located in the sixty-two largest industrial centres in the United States. By understanding the resulting origin-destination pattern of American investment in Ontario, Ray was able to conclude that:

1) Toronto is by far the favoured destination for American investors,

2) Other Ontario cities suffer 'economic shadow' whenever Toronto constitutes an intervening opportunity between it and a United States city, and

3) The further an American city is from Ontario, the more likely investment will be in Toronto (pp. 71-74).

The overall implication of Ray's study was to provide a partial explanation for regional inequality in Ontario. The importance of location, with respect to the U.S.-based parent companies, in conjunction with the polarization effects of Toronto were succinctly highlighted.

> Eastern Ontario's economic development is retarded because it lies in the area of economic shadow for all industrial centres except those in New England and adjacent states (p. 81).

Thus, by considering direct investment patterns in aggregate not only can important spatial trends be realized, but possible explanations for regional inequality discovered as well.

By also using an aggregated data set (that consisted of completed U.S.-based FDI transactions), Bagchi-sen and Wheeler looked at the distribution of inward FDI in the United States for two time frames (1974-78 and 1979-83). It was discovered that FDI was linked with metropolitan growth characteristics (as measured by the independent variables population size, population growth and per capita retail sales) and that

this correlation varied temporally and spatially. With the use of an expanded regression analysis (where one equation was constructed for each time period and significant differences in the regression parameters indicated a change in the proportional effect of each causal variable on FDI) the authors were able to offer some observations.

1) There is a continuing importance of large metropolitan centres (particularly New York, Los Angeles, Chicago, Houston and Atlanta) in attracting all types of inward FDI.

2) Other large centres (especially growth regions) are more specialized and entice a disproportionately large share of FDI in finance, insurance, real estate (Miami, Fort Lauderdale and Hollywood), manufacturing (Cleveland, Detroit, Pittsburgh, and Milwaukee), and in service activities (major areas of the south and west).

3) Sales per capita in large centres has become increasingly important in attracting FDI over time but, in the non-metropolitan areas local retail sales played a decreased role in attracting inward FDI. This clearly indicates the demand orientation of FDI.

4) The overall trend would appear to be that the heavy concentration of FDI in northeastern metropolitan areas in 1974-1978 (in especially New York) has dispersed widely to the metropolitan cities in the south and the west in 1979-1983, and that there has been a definite shift in FDI type from manufacturing to services endeavours (pp. 125-6).

This trend towards a decentralization of FDI activity from the northeast to the major growth regions of the south and the west of the United States was further substantiated by Glickman and Woodward (1988). From the point of view of inward FDI and its affect on regional development, the authors looked at some of the ramifications and reasons for this recent spatial shift. It was argued that since foreign investment is an important generator of local employment and capital, it is of value for regional scientists to understand what attracts FDI into given areas (if, for no other reason, to assess the appropriateness of regional incentive programs aimed at encouraging the local settlement of foreign assets).

The results of Glickman and Woodward's statistical procedure, which used a principal components analysis to 'summarize' the independent variables and then a regression analysis to uncover causal relationships with FDI, showed that the location of foreign-owned property (plant and

equipment) could be explained by variables representing: energy costs, infrastructure and/or transportation levels, and the labour climate. (Interestingly, Tong and Walter's 1980 study revealed a similar set of direct investment determinants. Their top five place-specific criteria were: availability of transportation services, labour attitudes, ample space for future expansion, nearness to markets within the U.S. and availability of suitable plant sites.)

Glickman and Woodward were also able to establish that there was a convergence of foreign- and domestic-owned industry location patterns (as both showed noticeable growth rates in the west and in the south) and that the location determinants in both cases were similar. Their results suggested that:

> . . . the disadvantage of alien status - if such is taken to imply an orientation toward the manufacturing heartland - may no longer play as strong a role in determining the geographical distribution of foreign investment (1988, p. 150).

The authors observed that more research is needed in this area by, specifically, expanding the number of independent variables used to explain FDI settlement over space. Other researchers in this field, such as Ó hUallachain and Reid (1990), have called for a similar quantitative approach in explaining U.S. inward direct investment but that subsequent studies should concentrate on each national source in isolation. Essentially, then, this would be a more specific extension of their own study that provided an overview of inward U.S. direct investment spatial patterns for many source-nations.

2.3.2) Outward Canadian FDI: Empirical Studies

There have been several notable empirically-based FDI studies that have considered the specific case of outward Canadian direct investment. Included within nearly all of these studies has been a highly summarized view of where Canadian MNEs invest and the activities that they are most likely to participate in (see Tables 2.3 and 2.4). With respect to total stock value abroad, the United States and, distant second, the United Kingdom are always revealed as the favourite targets of Canadian FDI and real-estate and manufacturing are disproportionately the preferred

Table 2.3
Distribution of Canadian Direct Investment Stock Abroad
(shown in percent of total stock)

Country	1975	1980	1985
United States	52.8	63.4	71.7
United Kingdom	9.7	9.5	4.9
Bermuda	4.4	3.6	3.0
Australia	4.3	2.6	2.2
France	2.0	1.0	0.8
West Germany	1.5	1.0	0.7
Bahamas	1.4	1.0	0.4
South Africa	1.2	0.6	0.3
Indonesia	0.9	2.2	3.0
Netherlands	0.7	1.1	0.9
Japan	0.7	0.4	0.4

Note: the total value of direct stock abroad (in Canadian dollars) was listed at approximately $10.5 billion for 1975, $28.9 billion for 1980 and $41.7 billion for 1984.

Adopted from: Outward Bound: Canadian Direct Investment in the United States. A.M. Rugman (1987), p. 72.

Table 2.4
Direct Investment in the United States by Industry: For Canada and the World (given in percentage of total stock value for the year ended 1984)

Industry	Canada	World
Manufacturing	27.8	31.8
Trade	11.8	19.1
Finance	3.9	2.7
Banking	7.8	6.4
Insurance	7.0	5.5
Real estate	19.4	10.6
Petroleum	10.1	15.6
Other	12.2	8.3
All industries	100.0	100.0

Note: total stock value (in U.S. dollars) was listed at approximately $14 billion for Canada and $159 billion for the world.

Adopted from: Outward Bound: Canadian Direct Investment in the United States. A.M. Rugman (1987), p. 15.

activities.

When researchers have attempted to learn the determinants of Canadian direct investment, most have specifically considered Canadian FDI in the United States and most have relied on company questionnaires to fulfil data requirements. Likely because of data limitations, the majority of these 'company-profile' approaches have frequently depended on a fairly small sample of large conglomerates to represent overall Canadian multinational behaviour. Litvak and Maule's The Canadian Multinationals (1975), Rugman and McIlveen's Megafirms: Strategies for Canada's Multinationals (1985), and several works listed in Rugman's Outward Bound: Canadian Direct Investment in the United States (1987) are good examples of Canadian studies that have adequately used the questionnaire approach to provide a good overview of what motivates Canadian firms to invest directly.

Studies that have addressed more specific aspects of outward Canadian FDI, but that have still relied on questionnaires and small samples, include "Market-Oriented Foreign Investment and Regional Development: Canadian Companies in Western New York" by Harrington, by Burns and Cheung (1986) and "Canadian Acquisitions Abroad: Patterns and Motivations" by Knubley, Krause and Sadeque (1991). The former study looked at Canadian FDI in western New York state, while the latter dealt with Canadian acquisitions (or one type of Canadian outward FDI).

Before these contributions to the growing body of Canadian FDI literature can be described in more detail, two points should be made. First, as with previously listed literature compilations in this chapter, these studies (although representative) do not constitute an exhaustive list. Second, to avoid repetition with earlier and future sections of this thesis, the emphasis was to report each study's overall 'statement' concerning the trends and characteristics of Canadian multinational investment behaviour. As each study independently provides a wealth of information concerning the various FDI theoretical models and subsequent applications to the Canadian situation, those interested should consult

the source directly. Within this regard, one further source should be named. Jorge Niosi's book Canadian Multinationals (1985), although not featuring empirical findings, does provide a thorough summary of: the FDI literature, the evolution of Canadian multinationals through time (and their continuous adaptation to the dynamic international environment), and key Canadian multinationals in the utilities, mining, manufacturing sectors.

Litvak and Maule's assessment of Canadian multinational activity provided a much needed addition to Canadian foreign investment research that had until then been dominated by empirical studies that concentrated on incoming direct investment. The 1975 study employed a questionnaire methodology administered at two scales: one for very large Canadian MNEs (generally those few conglomerates that were in the billion-dollar range of annual sales) and another one for small- to medium-sized multinationals that had controlled subsidiaries located in the United States. The central inquiry addressed in the research was to find out what set of conditions motivate Canadian companies to set up assets in foreign countries. For the large MNEs (such as Alcan, Massey-Ferguson, Seagram, Inco and MacMillan Bloedel) the most important reasons for FDI were:

1) To retain command over vital resources (particularly relevant for extraction-type companies that require necessary inputs that are not abundant domestically),

2) To enter foreign markets protected by tariffs or by other government-induced barriers,

3) To pursue growth-related goals (due in large part to the small Canadian market),

4) To capture tax and other financial advantages (by investing in countries with reduced or negligible corporate tax rates and/or that provide other financial incentives), and

5) To overcome the relative 'scarcity' of productivity factors (such as raw materials, financial and human capital and intermediate products). The 'scarcity' of these factors is constantly altered by differing levels of inflation, currency valuation, wage rates and government intervention between countries (pp. 18-24).

A similar set of direct investment motivations were listed for the sample of 25 small- to medium-sized MNEs that have controlled investments in the United States. The overriding justification for FDI in the U.S. by

these firms was to secure new markets (horizontally integrate) for either expansion or for market-defense reasons. Again there seemed to be an inclination both to vertically internalize the sources of supply and to overcome barriers to trade. However, the desire to possess superior technology was a critical motivation for smaller U.S.-bound Canadian direct investors; such a consideration was not emphasized by the larger-sized MNEs (p. 45). Another key observation that can be made based on the authors' questionnaire results has to do with recent-arrivals into the international market. Presumably, to gain experience in international business, it would not be uncommon for Canadian MNEs to set up facilities first in the U.S. and then later, as expertise increased, invest elsewhere (p. 42).

The book Megafirms: Strategies for Canada's Multinationals, by Rugman and McIlveen, documents the rise of some of Canada's best-known 'success-stories' within the international business environment. Of the twenty so-called 'mega-firms' that Rugman and McIlveen considered, eighteen of these companies were in resource-based industries and only two (Northern Telecom and Moore) were competing in high-tech areas. As a result, the vast majority of conclusions that the authors were able to offer are with respect to large MNEs in the primary sector.

It has been widely accepted that most of Canada's profitable MNEs are resource-based and their success stems from their ability to specialize and to vertically integrate their production process (Plenert, 1990, p. 36). Rugman and McIlveen revealed that many of Canada's megafirms have internalized Canada's country-specific advantage (which is, relative to foreign competitors, a cheap and abundant supply of resources) and in turn have made this their firm-specific advantage (p. 252). Such a conclusion is very much in keeping with Porter's 'diamond theory' and its inherent emphasis on home-country conditions acting as the catalyst (or the deterrent) for outward direct investment.

Yet, the very idea of prosperous resource-based multinationals does not follow traditio al American, Japanese or European models (or indeed

the thinking of Porter). As Rugman and McIlveen concluded, the nature of Canada's mega-firms show that firm-specific advantage can be in marketing and distribution and need not be in the form of "proprietary knowledge and the embodiment of high technology" (p. 251).

> The efficient marketing of resource-based product lines is the primary strength of many Canadian megafirms. Seagram, Moore and Massey-Ferguson have shown the critical importance of marketing and distribution; each has an extensive distribution network that gives it a distinct edge over its competitors (p. 252).

Firms such as Seagram, Moore and Massey-Ferguson are proof that MNEs do not necessarily have to be classified within the high-technology sector to be internationally competitive.

In Rugman's Outward Bound: Canadian Direct Investment in the United States, many of the 'push' and 'pull' factors associated with Canadian FDI activity in the U.S. are discussed. Rugman confirmed the 'pull' factors by summarizing several studies. Again, the importance of the U.S. market as the single most important attraction to Canadian direct investors was reinforced (see Table 2.5). Also, the importance of overcoming trade barriers and the need to diversify operations were typical concerns (as indicated in two of the four surveys) for Canadian direct investors as well. Somewhat surprising, as Rugman ascertained, was that these empirical findings (as specifically addressed in the Forget and Denis and the Gandhi studies) were unable to confirm the expected importance of either U.S. labour conditions or industrial incentives as significant 'pull' factors for Canadian MNEs (p. 38).

Through his own observations, and presumably in part on the strength of these empirical studies, Rugman identified several 'push' criteria that influence Canadian companies to move southward with some of their assets.

> They (the 'push' factors) may include: differential costs for factors such as labour and capital, tax and related policies affecting the investment climate; economic regulations and other government-related cost factors; and the increasing ability of the maturing Canadian managerial and economic system to support outward investment (p. 11).

Most of these 'push' factors are associated with Canada's inferior market conditions and a comparatively less hospitable business environment (which is, in large part, government policy-induced). In essence, the Canada

Table 2.5
Reasons Given for Canadian Direct Investment in the United States: Results of Four Studies

Direct Investment Motivation	Matheson	Dept. of Commerce	Gandhi	Forget & Denis
Serve foreign markets	Yes	Yes	Yes	Yes
Seek fast growing markets	Yes	Yes	Yes	Yes
Overcome trade barriers	Yes			Yes
Access to raw materials	Yes			
Diversify into other business	Yes	Yes		
Nonrestrictive U.S. policies		Yes		
U.S. political and economic stability		Yes		
Low value of U.S. dollar (1978-80)		Yes		
Nearness to parent company			Yes	
Transportation or accessibility advantage			Yes	
Year published	1985	1985	1984	1985

Notes:

The 'Gandhi' study considered Canadian direct investment in New York state only.

The 'Department of Commerce' study considered U.S. incoming direct investment from all sources.

Adopted from: Outward Bound: Canadian Direct Investment in the United States. A.M. Rugman (1987), pp. 31-8.

'push' factors are the same as the U.S. 'pull' factors; except that on the Canadian side a relative 'absence' of these MNE attractions is offset by a relative 'abundance' of them in the United States.

It is interesting to note that regardless of the spatial-scale or type of FDI being analyzed by these questionnaire studies, the motivations for outward Canadian FDI remain largely the same. In the Harrington, Burns and Cheung 'western New York'-specific study, market accessibility and the avoidance of tariff and non-tariff barriers to trade were the two most critical allurements to Canadian investors. Other factors that were somewhat important to the respondents, and unique to this study were: western New York's nearness to southern Ontario, favourable labour costs, availability of material inputs and managerial staff, and publicly-provided incentives (p. 162). It was also found that some of the key motivations varied with industry type.

Also, if just acquisitions are considered (as was pursued by Knubley, Krause and Sadeque) a similar set of Canadian direct investment motivations are revealed:

1) Need for outward expansion,
2) Geographic/product line diversification,
3) Trade barriers and transportation costs,
4) Availability of skilled labour, and
5) Favourable regulations abroad (p. 43).

The authors of this study based their conclusions upon a small sample of 23 questionnaires but did use a rather wide spatial-scale of assessment (over two-thirds of the Canadian-controlled foreign acquisitions considered were non U.S.-based).

In addition, Knubley, Krause and Sadeque used a larger sample to compile a spatial and functional view of Canadian acquisitions (as shown on Table 2.6). Interestingly, except for the greater importance of the financial sector, the results attained in this acquisition-specific study closely correspond to the overall pattern that results when 'total' Canadian FDI is surveyed.

Thus, it would appear that many aspects of the Canadian multinational situation are in accordance with the various theories

Table 2.6
Canadian Acquisitions Abroad: Distribution by Country (1979 - 1990) and by Industry (1987 - 1990)

Country	%	Industry	%
United States	70.1	Resources	14.0
United Kingdom	8.7	Manufacturing	38.8
France	2.5	Construction	3.0
Germany	1.8	Utilities	5.3
Other EC	5.3	Merchand. Trade	5.0
Other Europe	0.7	Services	8.3
Australia	3.4	Financial	18.7
Other Pacific	2.5	Unclassified	6.9
Other	5.0		
Total Acquisitions	100.0	Total Acquisitions	100.0

Note: the sample size of acquisitions listed for the countries was 438 and for the industries was 807.

Adopted from: "Canadian Acquisitions Abroad: Patterns and Motivations". J. Knubley. W. Krause and Z. Sadeque (1991), pp. 36-7.

governing FDI. Yet, since most of these studies have based their results on small questionnaire-based samples, rigorous statistical testing (such as the regression-type procedures used by Bagchi-sen and Wheeler and Glickman and Woodward) could not be employed. So that the results of these smaller-sample studies can be appended (or at least confirmed), there is a need for a current and comprehensive view of Canadian multinational activity that, through a wider-base of Canadian FDI cases, can provide statistical substantiation for the results attained. This is the overriding objective of Chapter 5 of this thesis.

2.4) Regulation on FDI: The Special Case of Canada - U.S. and Free-Trade Implications

As has been considered, one of the major sources of friction obstructing the flow of capital between nations is government-imposed regulation on FDI. Both home and host country regulations exist, but arguably the most critical confrontations occur between an MNE and the host nation. Policies directed towards the regulation of FDI will vary from country to country, and also within a given nation, and will differ as prevailing political powers change (Grewlich, 1978, p. 53). Thus, gaining a complete view of how Canadian FDI is received on a global scale is really not possible. By way of example, however, a short discussion featuring some of the regulations facing a Canadian MNE in an American setting will be considered.

The United States is a country that has pursued a comparatively non-restrictive approach to foreign investment (Green, 1990, p. 116); but even the American government has deemed it necessary to exempt some industry from foreign control. The following activities are prohibited, or at least heavily scrutinized, from FDI involvement by the U.S. federal government:

1) Communications - which includes telephone, telegraph, radio, and television industries,

2) Aviation - foreign ownership of a U.S. airline is prohibited except if: the foreign subsidiary was incorporated in the

> U.S., its president and two-thirds of the board of directors are American citizens, and three-quarters of the voting stock is controlled by U.S. citizens,
>
> 3) Classified government contracts - particularly any activity related to national defense,
>
> 4) Mining on federal lands - allowed only with countries that allow reciprocal privileges to U.S. citizens, and
>
> 5) Power supply - all activities involving the production or use of atomic energy are prohibited to foreign investors. Foreign development of water power sites on navigable streams is also prohibited, but foreign control of such domestic operations is allowed (Price Waterhouse, 1993f, pp. 38-9).

In addition, many state governments restrict (or closely monitor) foreign control of banking and insurance, land (especially agricultural) and real estate activities.

In reality, though, few restrictions exist for Canadian investors in the United States; particularly since the Free-Trade Agreement that allows businesses from both countries 'special' treatment in FDI matters.

> Specifically, the 'national treatment' component of the agreement prescribes that Canadian investors in the United States and American investors in Canada be treated no less favourably than that of domestic investors within each country. This does not entail harmonization of policies but non-discrimination between foreign and domestic firms (Wolf, 1989, pp. 182-183).

Hence, except for the key activities listed above, Canadian direct investors operating in America face little regulatory opposition.

Canada has few policies on outgoing investment; a situation that, before the Free-Trade Agreement, was often met with disfavour by American officials. The argument being that it was not fair for the Canadian government to screen would-be American investors (via the Foreign Investment Review Act - FIRA) and simultaneously not regulate their own multinationals in the United States. Much of this unrest was created because of a few well publicized 'hostile takeovers' of firms in the United States (Globerman, 1989, pp. 162-174).

At any rate, there is incentive for home countries to regulate their own MNEs for reasons other than the 'fair-play' scenario described above.

> In the majority of cases, approval of outward direct investment is linked to the balance-of-payments and related exchange rate implications of the proposed investment; however, domestic employment implications also frequently figure as a criterion (Globerman, 1989, p. 168).

As discussed earlier, outward direct investment is sometimes viewed as a 'drain' on the national economy as jobs, capital and other spin-off economic activities are 'exported' out of the country. In addition, outward direct investment is recorded as a 'negative' within the capital account and excessive capital outflows can therefore weaken a nation's balance-of-payments position and, relatedly, the value of the dollar (Lipsey et al., 1982, pp. 664-9). Simply stated, then, what may be good for Northern Telecom may not be beneficial for Canada, for example, and it is for this reason that most countries will (usually through the Central Bank) screen outgoing FDI.

Concern has also been raised by many individuals regarding the expected effects of free-trade upon bilateral capital flows between Canada and the United States. Many opponents of the 'deal' have expressed concerns that as barriers to trade are removed so are the inherent incentives that encourage American direct investment into Canada and Canadian direct investment into America. This is to implicitly assume that trade and FDI are substitutes and that the exodus of foreign-controlled subsidiaries and branch-plants from both countries (taking with them jobs and capital) is inevitable.

Rugman provided some empirical evidence in rebuttal to this line of thinking in his book Multinationals and Canada-United States Free-Trade (1990). The author isolated three important conclusions that support the notion that free-trade will not drastically change the nature of direct investments made in either country and (if anything) will ultimately benefit Canadian multinationals. First, in more theoretical terms, Rugman argued convincingly that trade and direct investment are complementary and not mutually exclusive. Second, because of this (and because Canadian parent multinationals have large exports to their subsidiaries) he stated that a freer trade environment would benefit the MNE and make its foreign direct investment more profitable as inter-firm transfers become less costly. Third, to further substantiate these conclusions, Rugman surveyed several chief executive officers of the largest foreign-controlled

subsidiaries in both the United States and Canada and:

> . . . these influential executives believe that their companies can adjust efficiently to new trading regimes and that there are neutral effects on employment in the short run and beneficial effects in the long run (p. 177).

Of course, the investment exchange and regulatory climate that exist between Canada and the United States must be interpreted as a unique situation. Many countries are not as liberal with reciprocal capital flows and tend to highly scrutinize a would-be investor's adequacy in a case by case fashion. India and China, although recently more lenient, have historically been good examples of countries that are quite strict with inward direct investment (Price Waterhouse, 1993b; Tanzer, 1994, p. 138). At the opposite end of the spectrum, some nations (particularly many of those dubbed 'less developed'), have had virtually no policing-mechanism for incoming investment. In chapter five these effects (FDI regulations, corporate tax rates and the overall political climate towards FDI) will be explored more completely from specifically the Canadian multinational's perspective.

Within this chapter an attempt was made to provide background on the theoretical FDI models and to outline the findings of some of the empirically-based work that has emerged in the more recent FDI literature. And, in keeping with the topic of this thesis, care was taken to highlight the contributions of those who were specifically concerned with describing, and accounting for, outward Canadian direct investment.

2.5) The Proposal of a 'New' Empirical Study

Upon examination of the literature, it was found that future studies of outward Canadian investment could append the present empirical collection with a methodology that addressed three critical 'gaps' in the literature. First, the vast majority of these Canadian studies have relied on surveys and interviews conducted on, primarily, the largest of Canada's MNEs. The results reported concerning Canadian FDI over space and the determinants of Canadian MNE behaviour must, therefore, be

interpreted within this 'large company' bias. Second, other studies (such as Litvak and Maule's 1975 survey) have surveyed smaller Canadian firms but because of small sample sizes, were not able to use statistical procedures and add confirmation to the results attained (such as what was successfully employed in many non-Canadian FDI studies). Third, there have been other studies that, while comparatively more comprehensive in their sample, have used a rather limited geographic scale of assessment. The Harrington, Burns and Cheung (1986) paper, that considered Canadian direct investment in western New York, is a good example of such a study. This observation is not meant as criticism but merely to point out that given the complexity of FDI, the interpretations concerning Canadian FDI behaviour in spatially-confined studies can not be made in universal terms, but rather must be made with respect to the geographic scale at which they were considered.

The following three chapters, then, address these concerns. Through a comprehensive sample that includes firms of all sizes, the spatial, temporal, and functional characteristics of Canadian direct investment internationally (Chapter 3) and within the United States (Chapter 4) is provided. From there, a regression and residual analysis is employed to examine if the theoretical and empirically-based place-specific determinants of direct investment (as proposed within the theory of this chapter) are valid for 'all' Canadian multinationals collectively. Thus, the contribution of this thesis, then, is to provide a thorough and up-to-date view of Canadian direct investment abroad and then to offer a statistically-substantiated 're-evaluation' of the determinants of Canadian MNE behaviour.

Chapter 3
The Characteristics of Canadian Multinational Activity Abroad

3.1) The Study Defined

To appreciate the importance of Canada's MNEs, it is necessary to understand the characteristics of both the parent MNEs and their foreign direct investments. Therefore, the overall intent of this chapter is to describe both the nature and the influence of Canadian FDI activity abroad. In realizing this goal, as much information as possible was collected on cases where foreign companies are controlled by Canadian investors. Ultimately, a sizeable sample of over 24,000 examples of Canadian FDI (at various points in time) has been retrieved and agglomerated into a data set which, as will be illustrated, can be used to reveal Canadian MNE behaviour. Before any empirical results can be presented, however, it would likely be useful to briefly describe how this data set was compiled and what sources were used to build it.

3.2) The FDI Data Set and its Sources

To be considered a 'Canadian foreign direct investment', then, the subsidiary in question had to conform to the following three criteria. First, as discussed in the previous chapter, it is generally agreed that foreign direct investment results when an investor controls at least 10% of a foreign enterprise's equity share capital. Such a designation was followed when determining inter-company control within this analysis. Second, for a foreign direct investment to be considered 'Canadian' the ultimate parent company had to be physically located in Canada. Which is to say, for example, that a foreign subsidiary controlled by Ford Canada would not have been considered within this analysis because its ultimate parent firm is located in the United States. Third, only subsidiaries located outside Canada were considered; a Canadian multinational's domestic operations were not of consequence to this study. Therefore, all

entries in the data set had the following similarities: a Canadian ultimate parent company, at least one foreign subsidiary company and a level of Canadian ownership of at least 10 percent.

Based on these three specifications of Canadian FDI, appropriate company names and locations were recorded and, where possible, additional detail applicable to the Canadian investment (such as company-type, employment and sales estimates, and the initial value of the investment) was included as well. Predominantly, three publicly-available sources were used to build this data set:

1) Who Owns Whom, (for the years 1974, 1979, 1984, 1989, 1992) published by Dun & Bradstreet International,

2) America's Corporate Families and International Affiliates, (for the years 1984 to 1990) published by Dun's Marketing Services Incorporated and,

3) Foreign Direct Investment in the United States (Transactions), (for the years 1974 to 1992) published by the U.S. Department of Commerce.

Beyond these American sources, information on Canadian multinationals and their subsidiaries was appended and updated with the use of: the Financial Post's listing of Canada's largest 500 corporations (for the year ended 1992), the Globe and Mail's compilation of the top 1000 corporations in Canada (for the year ended 1992), and The Blue Book of Canadian Business (as published by the Canadian Newspapers Services International Limited).

In building the data set, immoderate reliance on the American sources was compulsory because there exists no comparable Canada-based source of information that details the activity of Canadian companies abroad. The American sources list a diverse collection of ultimate Canadian parent companies and the name and location of their foreign subsidiaries regardless of company size, industry type or whether the company is privately- or publicly-owned. Of course, not all cases of Canadian FDI are captured by any one of these three sources (or all three together for that matter); each is, never-the-less, representative samples of the FDI universe.

The simultaneous use of all three sources added both accuracy and comprehensiveness to the records contained in the data set. Data

collection accuracy was increased as the names of Canadian parent companies were cross-referenced among the three sources. And as unique 'pieces' of information concerning the parent and subsidiary companies are particular to each data source; heightened comprehensiveness in describing the characteristics of Canadian FDI was achieved.

Of the data sources consulted, the Who Owns Whom volumes are the only ones that provide a comprehensive view of international Canadian investment. For each ultimate Canadian parent company, a list of each incorporated subsidiary and their host country is provided. In addition, each parent company is classified by standard industrial classification (SIC) codes and each resultant investment denoted as either an 'undisputed' subsidiary (where more than 50% of its equity share capital is controlled), an associate (where the parent company owns only 5% to 50% of another company), or if the investee company is dormant (in a stage of receivership or recently bankrupt). The first available volume of Who Owns Whom, that has a listing for Canadian ultimate parents, was issued in 1974.

The various volumes of America's Corporate Families and International Affiliates provide additional information on American subsidiaries that are under the control of Canadian companies. Specifically, the locations of companies are given at the city level, SIC codes are listed for not just the parent company but also for the subsidiaries, and employment and sales data (where available) is included. Yet, as with the Who Owns Whom source, typically only incorporated subsidiaries are divulged (or, essentially the first level in a company's overall ownership hierarchy), lower level production plants or retail outlets are not included. Unfortunately, this data source is also limited by a short usable time-frame; as a 'Canadian ultimate parent' section was added to this publication only by 1984.

Perhaps the most detailed assessment of Canadian foreign direct investment in the United States can be found in the U.S. Department of Commerce's yearly assembling of new American FDI transactions. (Or,

essentially, a listing of all the additional contributions made, during a given year, to the accumulated stock of foreign-controlled capital operating in the United States). The name of the investment, its American location, country of origin and pertinent SIC codes are listed in a fashion similar to that of the other two American sources. Yet, additional information is also provided, including: the value of each investment (where data is attainable), the mode of investment entry into the American economy (such as if FDI is in the form of a new plant, joint venture, acquisition or merger), and perhaps most significantly the inclusion of transactions at the plant-level.

The transaction data provided by these volumes was first available after May 7, 1975 (when by Executive Order the Secretary of Commerce became responsible for collecting data and analyzing FDI in the United States). However, it was not until after 1976 that the information collected became representative of the FDI situation because previous years were "not comparable in terms of transactions monitored or the level of effective effort to identify investments" (U.S. Department of Commerce, 1985a, p. 14).

Thus, because of data restrictions, this study will describe the Canadian FDI environment for a time-frame that extends from the mid-1970s to 1992. The remainder of this chapter will begin with an overview of Canada's largest multinational enterprises and finish with a more detailed aggregated assessment of Canadian multinational activity abroad.

3.3) Canada's Large Multinational Enterprises and Their International Emphasis

Due, in large part, to Canada's small domestic market, individual company growth has often coincided with an increasing emphasis on international activity (either as exports or foreign direct investment). With respect to FDI activity abroad, many of Canada's multinationals (particularly the large conglomerates) are diverse in both their function and in their choice of FDI locations. Thus, as the largest companies in

the nation grow, more of their assets (and therefore employment and spinoff economic activity) benefit foreign localities. A more specific description of Canada's larger multinational enterprises, then, is likely a suitable starting point for this discussion.

3.3.1) The 50 Largest Multinationals in Canada

With the use of The Financial Post's listing of Canada's top 500 corporations and the 1992 version of Who Owns Whom, a list of Canada's 50 largest MNEs (as ranked by sales in 1992) was compiled. All types of businesses were eligible, including companies that are: privately-owned, government-controlled, financial in nature, or publicly-owned industrials. The only two stipulations for inclusion were that the company had to be multinational (have at least one foreign controlled division) and had to have its headquarters in Canada. The resulting list of companies is displayed on Table 3.1.

Canada's largest companies (whether foreign-owned, Canadian multinational or otherwise) are generally well represented in this listing of the 50 largest multinationals. For instance, Stelco, which was listed as the 50th largest Canadian MNE, was also the 73rd largest company operating in Canada. Thus, the importance of Canada's 50 largest multinationals is apparent: collectively, they made up over two-thirds of the nation's most dominant companies in 1992.

In terms of international activity, there is considerable variation in the number of foreign subsidiaries and the number of foreign host countries in which Canada's largest multinationals invest within (as is shown on Table 3.1). Where BCE's extensive telecommunications activities, Thomson's ambitious publishing undertakings, Alcan's immense aluminium operations, and Seagram's massive distillery efforts were carried out through many foreign divisions located in countries all over the world; multinationals such as the retail food-chain giant Univa, financial institutions Onex and Trilon, mining and exploration companies Horsham and Nova, and the government-owned Petro-Canada and Canada Post were quite conservative in their level of international involvement.

Table 3.1
Canada's Top Multinational Corporations (ranked by sales in 1992) and Their Level of International Involvement (1992)

	Company	SUB	NC	Major Countries
1	BCE Inc.	166	32	USA, UK, Australia
2	Royal Bank of Can	88	19	UK, USA, Isle of Man
3	George Weston Ltd.	16	2	USA, UK
4	Can Imp Bnk of Com	56	19	USA, Australia, UK
5	Alcan Aluminium Ld	149	31	UK, USA, Australia
6	Can Pacific Ltd.	118	17	USA, UK, Bermuda
7	Bank of Montreal	74	11	USA, Brazil, Barbados
8	Noranda Ltd.	66	16	USA, UK, Austral/Mex
9	Bank of Nva Scotia	37	18	Jamaica, Barba/UK/Bah
10	Sun Life Assurance	15	2	USA, UK
11	Imasco Ltd.	34	5	USA, Barbados, Nether
12	Seagram Co Ltd.	195	39	UK, USA, France
13	Thomson Corp.	200	19	USA, UK, Australia
14	Manufactus Life In	31	6	UK, USA, Hong Ko/Berm
15	Univa Inc.	2	2	USA, Netherlands
16	Power Corp of Can	7	3	USA, Rep of Ire/Switz
17	Toronto-Dom Bank	30	9	USA, UK/Australia
18	Brascan Ltd.	13	2	Brazil, USA
19	Oshawa Group	7	2	USA, Cayman Islands
20	Petro-Canada	4	4	USA/UK/Spain/Bahamas
21	Bombardier Inc.	37	13	UK, USA/Belgium
22	Trilon Fina Corp.	4	3	Barbados, USA/Netherl
23	Can Natl Railway	13	3	USA, France
24	Confeder Life Ins	12	2	UK, USA
25	Can Life Assurance	12	4	USA, UK/Rep Ireland
26	John Labatt Ltd.	10	3	USA, UK/Italy
27	Canada Post Corp.	1	1	Netherlands
28	Trans Can Pipelnes	15	5	USA, Nethers/Neth Ant

Table 3.1 (Continued)

	Company	SUB	NC	Major Countries
29	Nat Bank of Can	18	10	USA, Hong Kong
30	Mutual Life Assur	4	1	USA
31	Air Canada	3	2	USA, Rep of Ireland
32	Varity Corp.	94	22	USA, UK, Austral/Swit
33	Canadian Tire	5	. 2	USA, Hong Kong
34	Inco Ltd.	146	35	USA, UK, Brazil
35	MacMillan Bloedel	25	9	USA, UK, Barbado/Neth
36	Nova Corp of Alta	2	11	USA, Netherlnds, Berm
37	Moore Corp.	66	36	UK, France, Ausl/Neth
38	PWA Corp.	12	9	USA/Rep of Ireland
39	Royal Trustco Ltd	112	19	UK, USA, Jersey
40	Onex Corp.	4	1	USA
41	Laurentian Group	27	4	UK, USA, Bahamas
42	McCain Foods Ltd.	37	10	USA, UK, Netherlands
43	Horsham Corp.	1	1	USA
44	Crownx Inc.	22	2	UK, USA
45	Molson Cos. Ltd.	102	37	UK, USA, Portugal
46	Quebecor Inc.	30	1	USA
47	Magna Int Inc.	10	2	USA, Germany
48	Laidlaw Inc.	82	3	USA, Barbados, Nether
49	Empire Co.	2	2	UK/Bermuda
50	Stelco Inc.	23	5	USA, Argenta/Neth/Swi

Notes:

Sub - total number of subsidiaries (more than 50% ownership) and associates (5% to 50% ownership) currently held.

NC - the number of foreign countries that the Canadian multinational invests within.

Sources: "Canada's Largest Corporations". The Financial Post (May 1993) and Who Owns Whom, North America. Dun and Bradstreet International (1992).

One identifiable group of companies can be categorized by their heavy reliance on FDI but with most of their investments being concentrated in one country. For instance, the management company Laidlaw had 77 of its 82 divisions in the United States. Other companies that displayed a similar American bias in their investment habits include: steel-giant Stelco (with 20 of its 23 direct investments located in the U.S.), Sun Life Assurance (12 of its 15), Canadian National Railway (11 of its 13), George Weston's food processing operations (15 of its 16), Labatt's brewing and food processing activities (8 of its 10), and publishing and printing company the Quebecor had all 30 of its subsidiaries in the United States. With few exceptions, such as management company Brascan (which had all but one of its subsidiaries located in Brazil), the United States in particular followed by the United Kingdom remain the primary targets for Canadian FDI.

In contrast to the single-country emphasis displayed by some Canadian multinationals, there is another group that can be distinguished by a more diffused pattern of international investment. Included in this group is definitely the aforementioned 'mega-parent companies' such as BCE, Alcan, Thomson and Seagrams. Yet, there are other companies that have comparatively fewer controlled subordinates but simultaneously have assets located in an equally impressive number of countries.

Specifically, companies in the financial sector (especially the banks) seem to show the most spatial diversity in their FDI location choices. The Royal Bank of Canada, Canadian Imperial Bank of Commerce and Royal Trustco each operated in nineteen different foreign countries. The Bank of Nova Scotia had subsidiaries in eighteen countries; and the Bank of Montreal, National Bank of Canada, and the Toronto Dominion Bank had controlled assets in eleven, ten, and nine foreign countries respectively. Also extremely divergent in location preference were: Molson's brewing and diversified holdings (located in 37 countries), Moore's business forms facilities (36 countries), Inco's mining operations (35 countries), Varity's farm machinery enterprises (22 countries), and Bombardier's

transportation equipment divisions (13 countries). It should be reiterated that although these MNEs can be considered spatially diverse, controlled investments in the United States and the United Kingdom still comprises the largest component of their FDI portfolios.

3.3.2) Quantifying International Involvement and Its Importance To Canada

This non-domestic emphasis common to many of Canada's MNEs has of course many effects. By not setting up plants and subsidiaries in Canada is to potentially forgo the Canadian economy both of jobs and of wealth accrued from a firm's everyday business activities. This is not to imply that non-domestic investment should be met with disfavour (or even that this 'loss' is a realistic one), only that it is important to understand just how 'multinational' Canada's biggest companies tend to be.

By computing a ratio that measures the number of foreign-controlled subsidiaries to the total number of subsidiaries owned by each of Canada's top MNEs, an estimate of their overall level of international involvement was achieved (as shown on the second column of Table 3.2). If it is assumed that for any given company, the country that it invests in most frequently is also the beneficiary of most of its economic activity, then it is of interest to note that many of these Canada-based corporations pursue little in the way of domestic activity.

Outstanding examples of companies relying almost exclusively on foreign markets for business exploits include corporations Varity, Moore, Thomson, and Bombardier; all of which had over 90 percent of their assets located in foreign countries. For all 50 of these companies combined, it was calculated that roughly two-thirds of their business activity was foreign in location and that only 16 of these companies had a 'foreign operations' ratio that was under 50 percent.

This international emphasis shared by many large Canadian businesses is one that has grown in importance over time. Table 3.3 is a retrospective look at 32 of 1992's top 50 MNEs (data for the other 18 companies was unavailable for 1974) and it is illustrated that often the larger MNEs in Canada have consistently increased the non-domestic portion

Table 3.2
Canada's Top Multinational Corporations and Their Level of International Involvement (1992)
(showing international sales and employment estimates)

	Company	% Foreign	Sales (000)	Employmnt
1	BCE Inc.	59.7	12,408,048	74,028
2	Royal Bank of Can	81.5	10,308,155	43,005
3	George Weston	27.1	3,143,329	16,802
4	Can Imp Bank Com	73.7	8,452,256	25,372
5	Alcan Aluminium	86.6	7,952,966	39,836
6	Can Pacific Ltd.	55.9	5,010,652	35,385
7	Bank of Montreal	64.3	5,688,747	20,657
8	Noranda Ltd.	50.8	4,337,304	24,384
9	Bank of Nova Scot	66.1	5,565,738	15,543
10	Sun Life Assur	60.0	4,815,582	4,937
11	Imasco Ltd.	50.7	4,050,829	38,025
12	Seagram Co Ltd.	87.5	6,502,141	14,438
13	Thomson Corp.	94.2	6,810,472	43,049
14	Manuf Life In	72.1	5,017,188	4,539
15	Univa Inc.	18.2	1,219,691	3,403
16	Power Corp of Can	21.9	1,353,739	2,146
17	Toronto-Dom Bank	57.7	3,541,626	13,568
18	Brascan Ltd.	41.9	2,493,469	8
19	Oshawa Group	18.0	902,052	3,120
20	Petro-Canada	4.1	186,591	339
21	Bombardier Inc.	90.2	4,012,096	30,953
22	Trilon Fina Corp.	11.1	482,295	2,376
23	Can Natl Railway	25.5	1,033,122	8,997
24	Confeder Life Ins	54.5	2,130,535	2,562
25	Can Life Assur	57.1	2,192,095	2,802
26	John Labatt Ltd.	50.0	1,918,500	5,500
27	Canada Post Corp.	50.0	1,902,000	28,000
28	Trans Can Pipeli	51.7	1,942,628	926

Table 3.2 (Continued)

	Company	% Foreign	Sales (000)	Employmnt
29	Nat Bank of Can	54.5	2,023,677	6,519
30	Mutual Life Assur	25.0	900,000	793
31	Air Canada	12.5	437,625	2,375
32	Varity Corp.	95.9	3,263,861	18,221
33	Canadian Tire	50.0	1,610,932	2,700
34	Inco Ltd.	89.0	2,753,433	15,774
35	MacMillan Bloedel	64.1	1,948,191	8,463
36	Nova Corp of Alta	15.4	466,158	966
37	Moore Corp.	95.7	2,815,011	22,107
38	PWA Corp.	41.4	1,191,078	6,436
39	Royal Trustco Ltd.	71.3	2,015,651	3,993
40	Onex Corp.	66.7	1,878,324	16,008
41	Laurentian Group	58.7	1,647,768	5,378
42	McCain Foods Ltd.	86.0	2,357,837	10,750
43	Horsham Corp.	33.3	902,359	3
44	Crownx Inc.	68.8	1,769,021	22,842
45	Molson Cos. Ltd.	77.3	1,967,489	12,213
46	Quebecor Inc.	48.4	1,227,234	7,986
47	Magna Int Inc.	37.0	872,756	5,365
48	Laidlaw Inc.	65.6	1,478,381	23,288
49	Empire Co.	5.6	125,895	773
50	Stelco Inc.	69.7	1,535,393	8,889
	Totals/(Average)	(66.0)	150,562,120	706,542

Note: in total, these 50 Canadian MNEs have 3394 subsidiaries, of which 2239 are located in foreign countries (or 66%).

Sources: "Canada's Largest Corporations". The Financial Post (May 1993) and Who Owns Whom, North America. Dun and Bradstreet International (1992).

Table 3.3
Canada's Top Multinational Corporations and Their Level of International Involvement (percent of operations in foreign countries)

Company	1992	1984	1974
BCE Inc.	59.7	56.0	20.0
Royal Bank of Canada	81.5	90.5	72.5
George Weston Ltd.	27.1	17.5	10.1
Can Imp Bank of Commerce	73.7	55.3	68.4
Alcan Aluminium Ltd.	86.6	77.0	86.1
Can Pacific Ltd.	55.9	55.3	37.2
Bank of Montreal	64.3	70.6	60.0
Noranda Ltd.	50.8	35.2	5.8
Bank of Nova Scotia	66.1	71.4	65.5
Imasco Ltd.	50.7	15.2	20.0
Seagram Co Ltd.	87.5	82.6	74.7
Thomson Corp.	94.2	80.6	51.3
Univa/Provigo Inc.	18.2	0.9	0.0
Power Corp of Can.	21.9	0.5	11.8
Toronto-Dominion Bank	57.7	46.7	40.0
Brascan Ltd.	41.9	42.1	65.0
Oshawa Group	18.0	0.0	3.2
John Labatt Ltd.	50.0	24.3	15.6
Trans Can. Pipelines	51.7	36.4	50.0
Varity/Massey-Ferguson	95.9	90.9	85.7
Canadian Tire Corp	50.0	12.5	0.0
Inco Ltd.	89.0	80.9	88.9
MacMillan Bloedel	64.1	73.7	41.3
Nova Corp/Husky Oil	15.4	46.1	78.6
Moore Corp.	95.7	95.0	77.8
Royal Trustco Ltd.	71.3	58.5	50.0
McCain Foods Ltd.	86.0	57.1	45.5

Table 3.3 (Continued)

Company	1992	1984	1974
Molson Cos. Ltd.	77.3	56.6	15.2
Magna Int Inc.	37.0	0.0	0.0
Laidlaw Inc.	65.6	42.3	0.0
Empire Co.	5.6	0.0	0.0
Stelco Inc.	69.7	57.1	42.9
Average	70.7	57.4	41.4

Note: the yearly averages are computed as a ratio of foreign tc total subsidiaries (or 1989/2814 for 1992, 1110/1935 for 1984, and 557/1344 for 1974).

Sources: "Canada's Largest Corporations". The Financial Post (May 1993) and Who Owns Whom, North America. Dun and Bradstreet International (Volumes 1974, 1984 and 1992).

of their business (as a percentage of their total operations) over the last two decades. Good examples of this are displayed by companies BCE, George Westons, Noranda, Imasco, Seagrams, Thomson, Univa, Toronto-Dominion, Labatts, Canadian Tire, Varity, MacMillan Bloedel, Moore, Royal Trustco, McCains, Molsons, Laidlaw, and Stelco. Other companies have kept their level of international involvement fairly consistent through time or in some cases (such as with Brascan and Nova) have even lowered their ratios of foreign to total operations. At any rate, the overall trend is apparent. In total, this sample of large companies has elevated their level of international involvement (by increasing the number of foreign subsidiaries or, abandoning Canada-based investments, or both) 16% from 1974 to 1984 and another 13.3% from 1984 to 1992.

As was illustrated earlier, if all 50 of Canada's largest MNEs are considered together, their foreign to total operations ratio was roughly two-thirds or 66%. By way of contrast, Stopford (1992) compiled a list of the world's 425 largest MNEs (as ranked in order of 1990 foreign sales); and in total these corporations had a foreign to total sales ratio of 47.5%. Fifteen of Canada's multinationals were large enough to be included within the listing (with Alcan being the highest representative at position 76), and their collective ratio, 69.4%, is similar to the one calculated herein. Clearly, these large Canadian MNEs (whether one considers the 15 in Stopford's compilation or the 50 used in this analysis) collectively possess a foreign-operations ratio that is well over the world average. As a result, the influence of Canadian MNE activity, from a national perspective, can not be understated even if, at a global scale, Canada's largest multinationals are conservatively-sized.

This point can be further substantiated by considering the sales and employment 'losses' that accrue from Canadian MNE non-domestic activity. A listing of foreign sales and foreign employment estimates for each of the 50 corporations is shown on the last two columns of Table 3.2. These estimates were derived by multiplying each company's foreign operations ratio by its year-end sales and employment totals (as reported by The

Financial Post, 1993). These estimates suggest how much economic activity (as represented by sales) and jobs are 'exported' by each Canada-based company.

Canada's 50 largest MNEs in total provided 706,542 jobs abroad and generated over $150 billion in sales in non-Canadian destinations. To put these totals in perspective, Canada's gross domestic product (GDP) at market prices for 1992 was $684.2 billion (Statistics Canada, 1993b). Therefore, these 50 companies produced sales in foreign locales at a level roughly equivalent to one fifth of what Canada's entire economy generated for all of 1992. Yet, to gain a complete perspective, this estimated outflow of sales and jobs must be stated with a comparable sample of companies that provide Canada with inflow (or FDI into Canada).

By again choosing a sample of 50 companies, the sales and employment totals for the largest foreign-controlled companies operating in Canada was noted. In total, the 50 largest 'branch-plants' (33 of them were American in origin) operating in Canada provided the nation with 429,642 jobs and had collective sales of $137.9 billion for the year ended 1992 (The Financial Post, 1993). Thus, from Canada's perspective, the net effect of FDI activity accruing from the largest MNEs in 1992 produced an estimated outflow of 276,900 jobs and $12.6 billion worth of direct economic activity.

Although the ramifications associated with incoming FDI has historically generated more concern to Canadians, a direct investment 'net outflow' has not been uncommon for Canada. In fact, a direct investment deficit, where direct investment abroad exceeds foreign investment in Canada (as reported in the capital account of Canada's balance of payments), has typically been the outcome since at least the mid 1970s (Rugman, 1987, p. 3). As Table 3.4 shows, it has only been since the 1990s that Canada has shown a positive direct investment balance; and this is more attributable to a strong increase in incoming FDI rather than a decline in direct investment abroad. And as of early 1993, evidence suggests that the FDI component of Canada's capital account may again be

Table 3.4
Direct Investment Component of Canada's Capital Account
(in millions of dollars)

Year	FDI Abroad	FDI in Canada	FDI Balance
1974	-810	845	35
75	-915	725	-190
76	-590	-300	-890
77	-740	475	-265
78	-2325	135	-2190
79	-2550	750	-1800
80	-3150	800	-2350
81	-6900	-4400	-11300
82	-875	-1025	-1900
83	-3400	300	-3100
84	-2949	1700	-1249
85	-3900	-2800	-6700
86	-5650	1375	-4275
87	-9375	4600	-4775
88	-6500	4450	-2050
89	-5450	2100	-3350
90	-4900	7700	2800
91	-6200	7500	1300
92	-4500	6000	1500

Source: The Canadian Economic Observer. Statistics Canada (Historical Statistical Supplement 1992/93), p. 33.

returning to a situation of net outflow. In the first quarter of 1993, Canadian direct investment abroad reached $2.2 billion (up from $1.8 billion in the fourth quarter of 1992) and the investment was:

> . . . widespread geographically, went two-thirds to existing foreign affiliates and one-third to finance the acquisitions of direct investment interests abroad (Statistics Canada, 1993a).

Another insight that can be derived by observing the temporal patterns of incoming and outgoing FDI on Table 3.4 is the comparative stability of outgoing, versus incoming, FDI. There were several occasions where foreign dis-investment did outweighed new investment in Canada (such as the years 1976, 1981, 1982, and 1985) and as result was listed as a negative value in the capital account. In contrast, new Canadian FDI abroad has always been greater than dis-investments of foreign assets for any given year and, except for the 1982 figure, a generally consistent increase in FDI abroad through time has resulted. The outflow of Canadian controlling capital is therefore a persistently significant debit (negative) in Canada's balance of payments.

Hence, whether a subset of large MNEs is considered or the total capital account picture is analyzed, the importance of Canadian direct investment abroad is clear and warrants close examination. It is for this reason that a thorough assessment of Canada's multinationals (by considering companies of various size and function) and the nature of their foreign investments is pursued in the next section.

3.4) A Spatial and Functional Assessment of Canadian MNE Activity (From Both a Headquarters and a FDI Perspective)

In contrast to the earlier section that provided a specific assessment of Canada's largest (and generally most dominant) multinationals, this section features the results of research documenting the aggregated FDI activities of Canadian business of all size and function. The chronicling of Canadian-owned business divisions abroad, particularly those investments located beyond North America, has improved somewhat over time. Still, even the most detailed data source in this

regard (Dun and Bradstreet's Who Owns Who) provides only gross country-level accounts of FDI location choices. Which is to say that, for example, it is known that in 1992 Air Canada controlled two subsidiaries (by owning more than 50% of the equity shares in companies Maple Leaf and Enroute) in the United States and had an associate (by owning 5% to 50% of GPA Group) in the Republic of Ireland, but it is unknown where within in the U.S. or Ireland these investments could be found.

This problem is largely overcome when the Canadian FDI situation is considered exclusively from the American perspective, as data sources are available that note Canadian direct investment at the city level. Because of data limitations, then, this aggregated view of Canadian FDI activity abroad was investigated at two scales: first from a global perspective and then, in the next chapter, specifically within the United States.

Table 3.5 gives a temporal view of the number of Canadian multinationals operating out of Canada and their subsequent foreign divisions. It should be reiterated that these seemingly increasing numbers of Canadian FDI should not necessarily be viewed as such. In reality this increase may be more an indication of superior comprehensiveness in firm coverage over time.

What can be compared, however, is the relative share of each FDI type for any given year. Absolute control, where foreign subsidiaries are unambiguously controlled by one Canadian parent company, has constituted the vast majority of Canadian FDI activity. Through time, fully-directed subsidiaries have always made up at least 80% of all total Canadian direct investments.

The level of control attained through associate investments is less clear and therefore was aggregated separately from the subsidiaries. The absolute numbers of associate companies have changed little since 1984, but their relative share of overall FDI activity has declined steadily from 1974 to 1992. The increasing numbers of dormant companies (investments of Canadian MNEs that are bankrupt or are no longer traded) have tended to offset the declining proportion of associate investments.

Table 3.5
Canadian Parent and Foreign Subordinate Companies
(totals for various years)

	1992	1989	1984	1979	1974
Subsidiary (%)	3883 (80.8)	3791 (83.0)	3114 (81.1)	2195 (81.1)	1149 (80.5)
Associate (%)	394 (7.8)	364 (8.0)	385 (10.0)	337 (12.5)	220 (15.4)
Dormant (%)	516 (10.2)	410 (9.0)	335 (8.9)	170 (6.3)	59 (4.1)
Both A & D (%)	12 (0.3)	5 (0.0)	6 (0.2)	5 (0.2)	0 (0.0)
Total (%)	4805 (100)	4570 (100)	3840 (100)	2707 (100)	1428 (100)
Canadian Parent Cos.	469	467	462	387	281
Subs/Parent	8.3	8.1	6.7	5.6	4.1

Notes:

Subsidiary - a company which either controls the board of directors or holds more than 50% of the equity share capital of another company.

Associate - a company in which the holding of another company amounts to between 5% and 50% inclusive.

Dormant - a dormant company is one which is registered but does not trade (typically bankrupt or in receivership).

Source: Who Owns Whom, North America. Dun and Bradstreet International (Volumes 1974, 1979, 1984, 1989, 1992).

The recent FDI activity of Canada's MNEs in aggregate, then, features a definite propensity to hold subsidiaries rather than associates with increasingly more of these investments ultimately failing.

Since 1984, the number of Canadian parent companies participating in FDI has stayed extremely stable. The subsidiary to parent company ratio however has increased noticeably through time (as displayed on Table 3.5). This suggests that most of the more contemporary direct investments have been made by already established Canadian MNEs rather than by Canadian companies that have just recently gone 'international' with their operations.

3.4.1) A Spatial View of Canadian MNE Activity

What has not stayed consistent over time is the headquarters location of Canadian parent companies. Some interesting trends regarding where throughout Canada the headquarters of multinationals have located are shown on Table 3.6. Provincially, Ontario has always housed a disproportionate share of MNE headquarters companies but its allotment of the total has declined steadily through the years (from well over half in the 1970s to just over 40% by 1992). Much of this decrease has coincided with a strong increase in the number of parent companies locating in British Columbia (or particularly Vancouver), where by 1992 almost one-fifth of all MNE headquarters companies had settled in Canada's extreme west. The other two provinces of consequence, Quebec and Alberta (led of course by Montreal and Calgary respectively), have largely maintained their significance as important headquarters sites through time - varying between 14% and 19% of the total.

At the CMA level, headquarters location has been spatially concentrated within four metropolitan areas: Toronto, Vancouver, Montreal, and Calgary. These four centres collectively have housed any where from 76% to roughly 85% of MNE parent companies in Canada from 1974 to 1992. The ranking of these centres (expect with Vancouver surpassing Montreal by 1984) has remained consistent over time, but each CMA reached their own respective peak in importance during different eras.

Table 3.6
Headquarters of Canadian Multinationals:
by Province and by CMA for Selected Years
(shown in percent of total)

Province	1992	1989	1984	1979	1974
Ontario	40.7	42.2	49.1	52.7	53.7
British Col	19.8	19.1	14.3	12.9	12.1
Quebec	18.3	15.0	15.6	16.5	22.4
Alberta	15.4	17.6	16.0	14.7	8.9
Manitoba	1.9	2.4	2.0	2.3	1.4
Nova Scotia	1.9	1.5	1.0	0.3	1.1
New Bruns	0.9	1.1	0.4	0.3	0.4
Saskatchewan	0.6	0.9	1.0	0.3	0.0
Newfoundland	0.2	0.4	0.2	0.0	0.0
P.E.I.	0.0	0.0	0.0	0.0	0.0
Total Percentage	100.0	100.0	100.0	100.0	100.0

CMA	1992	1989	1984	1979	1974
Toronto	32.4	31.7	43.5	39.8	37.4
Vancouver	18.8	17.8	14.1	12.1	11.4
Montreal	16.4	13.3	13.6	15.5	20.3
Calgary	13.9	16.1	13.6	11.9	7.8
Winnipeg	1.7	2.1	2.0	2.3	1.1
Kitchener	1.3	1.5	1.7	2.3	2.1
Hamilton	1.3	1.3	0.9	1.3	0.7
London	1.1	1.3	1.7	1.8	2.5
Edmonton	1.1	1.5	2.4	2.6	1.1
Halifax	1.1	.9	0.2	0.0	0.3
Ottawa	0.9	1.3	2.2	2.1	2.1
Total Percentage	90.0	88.8	95.9	91.7	86.8
Total No. Headqt.	469	467	462	387	281

Source: Who Owns Whom, North America. Dun and Bradstreet International (Volumes 1974, 1979, 1984, 1989, 1992).

For instance, Toronto reached its pinnacle of 43.5% in 1984 and then declined to its modern position of housing one-third of all Canadian parent companies. Whereas, Montreal's peak in importance occurred much earlier (in the mid-1970s), Calgary's most dominating era was in 1989 and Vancouver has continued to be on the incline and likely has yet to peak. Generally, the 1984 era represents the time of most centralized headquarters activity. As shown on Table 3.6, 95.9% of all Canadian parent companies were located in only 11 CMAs, and 84.8% were located in the top four CMAs. From there after, signs of some spatial decentralization of headquarters location began to occur.

One may assume that headquarters location would be closely associated with the overall level of economic activity inherent to each particular province, but this has not always been the case. Listed on Table 3.7 are gross provincial products (as a percent of Canadian GDP) and the aforementioned headquarters proportions per province. Interestingly, only Ontario's portion of headquarters activity closely matched its corresponding share of GDP. Quebec's share of Canadian parent companies was considerably below its provincial share of GDP. Both British Columbia and Alberta, conversely, have housed more multinational headquarters companies than would their total level of economic production predict. The remaining six provinces have always been characterized by diminutive levels of economic output, but the virtual non-existence of a headquarters base has lagged well behind even their comparatively small gross provincial products.

Therefore, the headquarters location choices of Canadian multinationals exhibit a strong big-city bias, but the pattern formed does not perfectly follow the usual standard of overall economic activity. This may provide further evidence to imply that Canadian MNEs represent a distinct subset of the Canadian corporate environment and make location choices that do not necessarily conform to the pattern demonstrated by companies that are not international in nature.

The international spatial distribution of FDI created through the

Table 3.7
Headquarters of Canadian Multinationals As Compared to Provincial Gross Domestic Product
(shown as percent of total)

Province	1992		1989		1984	
	H.Q.	GDP	H.Q.	GDP	H.Q.	GDP
Ontario	40.7	40.3	42.2	42.0	49.1	38.1
British Col.	19.8	12.7	19.1	11.9	14.3	11.7
Quebec	18.3	23.1	15.0	23.0	15.6	22.7
Alberta	15.4	10.8	17.6	10.1	16.0	13.5
Manitoba	1.9	3.5	2.4	3.5	2.0	3.7
Nova Scotia	1.9	2.6	1.5	1.5	1.0	2.5
New Bruns.	0.9	2.0	1.1	1.9	0.4	1.9
Saskatchewan	0.6	2.9	0.9	3.0	1.0	3.8
Newfoundland	0.2	1.4	0.4	1.3	0.2	1.4
P.E.I.	0.0	0.3	0.0	0.3	0.0	0.3
Total Percent	100	100	100	100	100	100
Total # H.Q.	469		467		462	

Note: Canadian GNP (at market prices) for 1992 is $684.184 billion, for 1989 is 649.080 and for 1984 is 443.268

Sources: Who Owns Whom, North America. Dun and Bradstreet International (Volumes 1984, 1989, 1992) and The Canadian Economic Observer. Statistics Canada (Nov 1993), p. 8.

activities of Canada's MNEs is one that includes an impressive listing of countries (as of 1992, Canadian FDI was present in 87 foreign countries) but, as for the number of Canadian subsidiaries, a definite clustering of Canadian FDI can be identified in certain favoured locations. On Table 3.8, a summary of where Canada's subsidiaries were located over the world for various years is provided. Listed are Canadian controlled subsidiaries by region both in absolute number and in percent of the total. On Table 3.9 a more detailed picture of multinational investment preference is presented by illustrating the proportionate share of Canadian direct investment captured by the more important host countries. For more information concerning the remaining countries not placing in the top 25, and for actual subsidiary totals per country, consult Appendix 1.

To reliably report the spatial distribution of Canadian FDI, associate companies were not included within the analysis. As defined earlier, an association is an investment linkage that constitutes a minimum of 5 percent ownership between an investee and investor firm. As a result, it is possible that a foreign firm could be an associate of several investor firms. Thus, if associations were included within the tabulations, a misrepresentation of the intensity of Canadian MNE control over space could occur in potentially two ways.

First, for example, a U.S.-based associate of Alcan could also be an associate of another Canadian parent company and its inclusion in this exercise would therefore overstate the number of Canadian subordinates operating in the United States (by counting this associate firm twice). Second, a foreign company listed as an associate of a Canadian company, could actually be a controlled subsidiary of another non-Canadian firm and in such a circumstance, would not be a controlled-Canadian direct investment at all. Since these ambiguities concerning where absolute control lies can not occur in the case of wholly-owned subsidiaries, the following tables were constructed using only such investment linkages.

The most outstanding conclusion that can be made by looking at these tables is the critical role that the United States plays as a receiver of

Table 3.8
Canadian Direct Investment Abroad:
Number of Controlled Subsidiaries By Region

Region	1992	1989	1984	1979	1974
North America	2070	2019	1434	851	478
(%)	(53.3)	(53.3)	(46.1)	(38.8)	(41.6)
British Isles	631	660	615	456	198
(%)	(16.2)	(17.4)	(19.7)	(20.8)	(17.2)
Western Europe	432	438	418	327	151
(%)	(11.1)	(11.6)	(13.4)	(14.9)	(13.1)
Cen Amer & Carib	279	230	220	207	140
(%)	(7.2)	(6.1)	(7.1)	(9.4)	(12.2)
Australasia	144	146	142	98	52
(%)	(3.7)	(3.9)	(4.6)	(4.5)	(4.5)
Asia	139	131	104	68	31
(%)	(3.6)	(3.5)	(3.3)	(3.1)	(2.7)
South America	126	104	80	93	62
(%)	(3.2)	(2.7)	(2.6)	(4.2)	(5.4)
Africa	37	39	65	56	30
(%)	(1.0)	(1.0)	(2.1)	(2.6)	(2.6)
North Europe	26	24	36	39	7
(%)	(0.7)	(0.6)	(1.2)	(1.8)	(0.6)
Totals	3884	3791	3114	2195	1149
(%)	(100)	(100)	(100)	(100)	(100)

Note: There are no Canadian subsidiaries in Eastern Europe (C.I.S., Poland, Czechoslovakia, Hungary, Romania, and Bulgaria); North Europe contains Denmark, Sweden, Norway and Finland; and the remaining countries of the continent (except for the British Isles) make up Western Europe. Australasia contains countries Australia, New Zealand and all adjacent islands but not including Asian countries to the north such as Papua New Guinea and beyond.

Source: Whom Owns Whom, North America. Dun and Bradstreet International (Volumes 1974, 1979, 1984, 1989, and 1992).

Table 3.9
Canadian Foreign Direct Investment Abroad: Percent Share of Canadian Controlled Subsidiaries Per Country and Rank

COUNTRY	1992	R	1989	R	1984	R	1979	1974
USA	52.9	1	52.8	1	45.5	1	37.8	40.0
UK	14.1	2	15.9	2	18.0	2	18.9	16.9
Australia	3.0	3	3.3	3	3.8	3	3.9	4.1
France	2.6	4	2.2	5	2.7	5	2.2	2.1
Netherlds	2.7	5	2.5	4	3.0	4	3.8	1.9
Brazil	1.8	6	1.8	7	1.7	7	2.6	2.5
Barbados	1.7	7	1.0	12	.3	29	.6	.4
W. Germy	1.6	8	1.9	6	2.4	6	2.8	3.7
Hong Kong	1.5	9	1.4	10	1.1	12	.9	.4
Bermuda	1.4	10	1.6	8	1.5	8	1.4	1.0
Switzerld	1.1	11	1.5	9	1.5	8	1.5	1.3
Belgium	1.0	12	.9	15	1.0	15	1.1	1.2
Italy	.9	13	1.0	11	1.1	14	1.3	1.7
Ireland	.9	14	.9	14	1.3	10	1.6	.3
Cayman Is	.8	15	.3	23	.5	22	.5	.5
Nethr Ant	.7	16	1.0	13	1.2	11	.6	.1
Bahamas	.6	17	.7	16	1.1	12	2.3	5.6
Spain	.6	18	.5	20	.6	19	1.0	.2
Jersey	.6	19	.3	28	.2	34	.1	-
New Zeald	.6	20	.6	18	.7	17	.5	.4
Singapore	.6	20	.6	18	.7	17	.1	.2
Portugal	.5	22	.6	11	.5	22	.2	.1
Virgin Is	.5	23	.1	42	.1	53	-	-
Mexico	.4	24	.4	21	.6	20	1.0	1.6
Japan	.4	25	.4	21	.3	29	.6	.7

Note: this is a retrospective look at 1992's top 25 countries; previous years would therefore feature different listings.

Source: Who Owns Whom, North America. Dun and Bradstreet International (Volumes: 1974, 1979, 1984, 1989, 1992).

Canadian controlling capital. In the 1970s, roughly two-fifths of all Canadian direct investment were made in the United States and by 1992, America played host to over half of Canada's foreign subsidiaries. The importance of the U.S. to the Canadian MNE experience really can not be overstated; and therefore a more detailed account of Canadian FDI in the United States is supplied in the next chapter.

The next most important destination for Canadian FDI has typically been the British Isles - particularly the United Kingdom, but with reasonable numbers of Canadian subsidiaries also located in the Republic of Ireland and in Jersey. However, the British Isles' share of Canadian FDI, although always important in absolute terms, has progressively shrunk through time. This could be attributable to the many Canadian subsidiaries that have become dormant in the United Kingdom. Most of these dormant companies are bankrupt or in various stages of receivership and, as displayed on Table 3.10, these 'no longer trading' companies stationed in the United Kingdom have accumulated to numbers that have far exceeded even those for the United States. Thus, Canadian direct investment in the U.K. is indeed very significant but can be considered less stable and perhaps more prone to failure when contrasted with U.S.-based Canadian FDI.

Western Europe has maintained its rather sizeable share of Canadian FDI through out the years with the mix of important host countries staying relatively unchanged. France, the Netherlands, Germany, Switzerland, Belgium and Italy are countries that have always ranked within the top 15 as world leaders in receiving Canadian control capital. In addition to these 'traditional' sites for Canadian investment in Western Europe, Spain and Portugal have increased their share of Canadian capital sufficiently enough (in more recent years) to be ranked within the top 25. Generally, a dispersed pattern of Canadian FDI has developed in Western Europe; the region is not dominated by one country as the overwhelming favourite site-choice of Canadian MNEs.

The distribution of Canadian FDI activity among Central America-

Table 3.10
Dormant Canadian Subsidiaries (percent share by country)

Country	1992	1989	1984	1979	1974
UK	49.2	47.6	56.1	65.3	57.6
USA	29.3	26.6	21.8	17.1	25.4
Australia	5.4	5.9	1.2	2.4	3.4
Netherlands	1.9	1.0	2.1	1.2	-
New Zealand	1.6	2.3	0.9	-	-
Hong Kong	1.4	1.2	0.3	1.2	-
Bermuda	1.4	1.0	2.3	-	-
Germany	1.4	1.5	0.9	1.2	3.4
Bahamas	1.0	1.2	0.9	1.2	5.1
Liberia	0.8	1.5	0.6	-	-
Total Dormant Subsidiaries	516	410	335	170	59

Notes:

A dormant company by definition is one that is registered on an exchange but does not trade. Such a company is, in most cases, bankrupt or in receivership.

Some dormant companies remain listed over several time periods.

Source: Who Owns Whom, North America. Dun and Bradstreet International (Volumes 1974, 1979, 1984, 1989 and 1992).

Caribbean countries has been quite even as well. Through time, Barbados, the Cayman Islands, Netherlands Antilles and the Virgin Islands have emerged noticeably as important target countries, and Bermuda and the Bahamas have always been significant host nations. In fact, as of 1992, virtually all of the islands in the Caribbean were station to at least one Canada controlled subsidiary (with Cuba being the one notable exception). As well, all countries of Central America are represented within this sample of outward Canadian direct investment, but the quantity of investee firms in these countries lags well behind those of the Caribbean.

The Australasia region had since 1984, maintained its actual number of Canadian subsidiaries but has shown a decline in its relative share. Nevertheless, Australia has consistently been Canada's third favourite target nation (although a distant third behind the U.S. and the U.K.) for direct investment opportunity. New Zealand is also notable in this regard.

Emerging as perhaps a minor 'growth region' for Canadian direct investment is Asia. In comparative terms, Asia's share of Canadian FDI is not large (it was recorded at 3.6% for 1992) but it is the only region of the world to exhibit an increase in its relative share for every sampled time interval. As listed on Table 3.9, Hong Kong, Singapore and Japan represent Asia's most important countries for Canadian FDI. Canadian MNEs have also exploited Malaysian and Indonesian markets, but with comparative less frequency.

Brazil has always been the most prominent South American target for Canadian FDI. However, ranking just below the listed top 25 countries for 1992 and definitely emerging in importance are Argentina, Venezuela, Uruguay and Chile. South America's relative share of Canadian FDI peaked in the early 1970s and then declined throughout the 1980s. Yet, in more recent terms, the 1992 figure suggests that the continent may be rebounding to its 1970s' level of proportionate importance to Canadian FDI.

In contrast, Canadian MNEs have recently reduced their investment

emphasis in African countries to an all time low. This decline is best illustrated by documenting the temporal pattern of Canadian FDI in South Africa. In terms of ranking and relative world share of Canadian direct investment, South Africa ranked eighth in 1974 capturing 2% of Canada's foreign subsidiaries. After 1974, South Africa's relative share was 1.4%, 0.7%, 0.3%, and 0.1% for 1979, 1984, 1989 and 1992 respectively. Yet, some African countries (such as Liberia and Zimbabwe) have disrupted this trend, albeit with very modest gains, and have shown small increases in the number of Canada-controlled subsidiaries.

The final world region that is home to Canadian subsidiaries is North Europe. In actual numbers, there have never been substantial Canadian investments made in Scandinavia and in percentage terms, these countries have been emphasized increasing less by Canadian MNEs. Still, at various points in time (particularly in the late 1970s and early 1980s) some accumulation of Canadian capital has been centred in Sweden and Norway.

Therefore, except for Eastern Europe, Canadian FDI is well represented all over the world and favoured destinations are very identifiable. Yet, control of these foreign subsidiaries remains highly spatially concentrated in Canada. As shown on Table 3.11, Canadian MNFs located in four CMAs (Toronto, Montreal, Vancouver and Calgary) control almost 90 percent of Canada's FDI activity.

The Toronto and Montreal CMAs are particularly important within this regard. As discussed earlier, Toronto (as of 1992) housed about 32% of Canada's MNE headquarters firms, but the multinationals located in the city in turn controlled over 44% of Canada's FDI abroad (see Table 3.11). Montreal's function as a node of control is also evident: MNEs in the city controlled another 28% of Canada-owned foreign subsidiaries through 16% of the country's MNE headquarters. On the other hand, Vancouver and Calgary, while station to 18.0% and 13.9% (respectively) of headquarters located in Canada, controlled comparatively fewer subsidiaries in foreign destinations.

Table 3.11
Canadian Points of Control (for 1992)

CMA or Town	Subsidi	Sub(%)	Countri	Headqu	Sub/Hq
Toronto	1731	44.6	72	152	11.4
Montreal	1085	27.9	57	77	14.1
Vancouver	350	9.0	32	88	4.0
Calgary	280	7.2	24	65	4.3
Hamilton	109	2.8	3	6	18.2
Winnipeg	49	1.2	7	8	6.1
Ottawa-Hull	41	1.1	13	4	10.3
Florenceville (NB)	37	1.0	10	1	37.0
London	34	0.9	8	5	6.8
Halifax	27	0.7	11	5	5.4
Saint John	20	0.5	2	3	6.7
Kitchener	16	0.4	3	6	2.7
Kingsey Falls (PQ)	15	0.4	4	1	15.0
St. Cath-N.F.	8	0.2	2	1	8.0
Woodstock (ON)	8	0.2	1	1	8.0
Edmonton	7	0.2	3	5	1.4
Guelph (ON)	7	0.2	3	1	7.0
Paris (ON)	6	0.2	1	1	6.0
Regina	5	0.1	2	2	2.5
Canada	3884	100.0	86	468	8.3

Source: Who Owns Whom, North America. Dun and Bradstreet International (1992).

The reason for these results can be explained by the subsidiary to headquarters ratio as given on Table 3.11. In comparison to the national average, (where the typical Canada-based multinational had just over eight foreign subsidiaries), Toronto and Montreal housed MNEs that are larger in terms of their number of international investments (11.4 and 14.1 respectively). In contrast, Vancouver (at 4.0) and Calgary (at 4.3) were station to multinationals that had fewer foreign subsidiaries. Therefore, the emerging importance of Vancouver and Calgary as centres for MNE headquarters in recent years is indeed noteworthy but in terms of absolute control (as measured by the number of foreign subsidiaries) Toronto and Montreal remain unrivalled.

Another way to compare both Canadian headquarters and foreign subsidiary locations is to note the existence of any discernible bias in the spatial patterns between investment origin and destination. Listed on Table 3.12 are the FDI linkages between the locations of Canadian control (both regionally and for the most important CMAs) and the countries most frequented by Canadian FDI activity. Of course, the United States, and to a lesser degree the United Kingdom, have remained the primary targets for outward FDI from all Canadian locations. Yet, outstanding examples of spatial FDI linkages that deviate noticeably from the national pattern are apparent. Particularly striking within this regard was western Canada's emphasis on U.S.-based FDI and eastern Canada's bias towards the U.K. and western Europe.

Cities and towns within the Prairies and British Columbia, along with the CMA of Hamilton, have displayed an investment bias towards the United States that is unequalled anywhere else in Canada. As shown, over 70% of all FDI originating from either the Prairies or British Columbia has ended up in the United States. Also, in comparison to the rest of Canada, MNEs in western Canada have demonstrated a greater propensity to control subsidiaries in Barbados, Bermuda (in the case of the Prairie region and particularly Calgary) and Australia (for Vancouver specifically and British Columbia generally).

Table 3.12
Headquarters and Subsidiary Spatial Linkages: for 1992
(shown in percentages of the total)

	Toron	Montr	Vanco	Calgar	Hamil	Winni
USA	45.4	48.3	72.9	67.9	85.3	81.6
UK	18.7	11.3	5.7	11.1	11.0	6.1
Australia	3.1	3.4	4.0	1.1	-	-
France	2.1	4.1	0.3	1.1	-	2.0
Netherlands	2.1	2.4	1.4	2.9	0.9	-
Brazil	2.2	2.8	0.3	-	-	-
Barbados	2.1	1.0	2.0	1.8	2.8	-
Germany	1.4	2.7	0.3	0.7	-	2.0
Hong Kong	1.6	1.8	1.4	0.7	-	4.1
Bermuda	1.1	1.9	0.6	3.6	-	-
Remainder	20.2	20.3	11.1	9.7	0.0	4.2
Total (No.)	1731	1085	350	280	109	49
	Mariti	Ontar	Quebe	Prairi	B.C.	Can.
USA	44.9	49.2	48.5	70.1	73.1	52.9
UK	24.7	17.6	11.1	10.3	5.6	14.1
Australia	1.1	3.1	3.3	0.9	3.9	3.0
France	5.6	2.0	4.6	0.6	0.3	2.6
Netherlands	11.2	2.0	2.4	2.3	1.4	2.7
Brazil	-	1.9	2.7	-	0.3	1.8
Barbados	1.1	2.1	1.0	2.0	2.0	1.7
Germany	3.4	1.4	2.6	0.6	0.3	1.6
Hong Kong	1.1	1.4	1.8	1.1	1.4	1.5
Bermuda	1.1	1.0	1.9	2.9	0.6	1.4
Remainder	6.7	18.3	20.1	9.2	11.2	16.7
Total (No.)	89	1984	1106	348	357	3884

Source: Who Owns Whom, North America. Dun and Bradstreet International (1992).

Canadian multinationals centred in eastern Canada have definitely designated the European and United Kingdom markets as important FDI target locations. The proportion of Maritime-based parent companies that had controlled investments across the Atlantic was well over the national average. The most noteworthy targets included: the United Kingdom (24.7%), the Netherlands (11.2%), France (5.6%), and Germany (3.4).

Quebec and Ontario house MNE parent companies that display investment tendencies that generally echo the Canadian norm, but small biases in FDI location choice still exist. For instance, connections of parent companies in Quebec with subsidiaries in France, Germany and Brazil were more frequent than what was the national average. Also, the United Kingdom remained well-connected via FDI from Ontario-based multinationals. This is particularly true of MNEs in Toronto where 18.7% of FDI originating from Canada's most active CMA was directed towards Britain. In contrast, Toronto's pattern of investment for the United States, which is very important in absolute terms, is one that emphasizes the American market to a lesser degree than other CMAs in Canada.

3.4.2) A Functional View of Canadian MNE Activity

By considering the functional emphasis of Canada's multinationals more evidence is added in support of the notion that Canada's MNEs represent a distinct subset of the nation's corporate environment. Featured on Table 3.13 is a comparison of activity between the nation's multinationals, foreign direct investments, and the rest of the Canadian economy and clearly differences exist.

The percentages for the MNE headquarters were calculated through the SIC listings in the data set. To explain further, there were 469 Canadian MNEs in 1992, but since many of these companies were highly diversified, the total number of functions performed by all of Canada's MNEs collectively was 1122.

The activity-proportions of the foreign subsidiaries had to be derived by the SIC description of the parent companies. Due to the unavailability of direct SIC classification for most foreign divisions,

Table 3.13
Canadian MNE Headquarters and Subsidiary Activity As Compared To Total Activity of the Canadian Economy (GDP)
(shown as percent of total)

Activity	1992		
	Can GDP	Headquar	Subsidi
Agric, Forestry, Fishing	2.9	1.2	0.5
Mining	4.1	20.5	15.4
Construction	5.8	3.1	2.0
Manufacturing	17.0	27.5	33.5
Transportation & Commun.	8.6	4.6	16.4
Retail and Wholesale	22.8	9.1	11.4
F.I.R.E.	16.9	27.2	15.9
Services	11.9	6.6	4.8
Public Administration	10.2	0.3	0.1
Total Percentage	100	100	100
Total Activities		1122	9780

Notes:

Canadian GDP for 1992 (at factor cost in 1986 prices) is $502.097 billion and for 1989 is $503.661 billion.

Holding companies are not included in the F.I.R.E. percentage for subsidiaries.

Sources: Who Owns Whom, North America. Dun and Bradstreet International (Volumes 1989 and 1992) and The Canadian Economic Observer. Statistics Canada (Historical Statistical Supplement 1992/93), p. 29.

the assumption that the controlled subsidiary would perform functions similar to the parent company was employed. Admittedly, this assumption is not realistic in all cases, but in aggregate should provide a good surrogate measure for realizing general trends in foreign subsidiary activity.

One notable exception to this assumption of consistency between parent and subsidiary function is with regards to holding companies. Holding companies are considered part of the financial sector but in reality are formed for the sole purpose of acquiring enough of the voting stock in other companies to ensure control (Fitzgerald, et al., 1983). Holding companies therefore perform a function that is internal to the MNE and typically do not provide a financial service for the outside economy. Consequently, there would be few instances where a foreign subsidiary would act in such a capacity.

The key difference between the activity percentages of the headquarters and subsidiary columns listed on Table 3.13 is that subsidiary activities were essentially 'weighted' by frequency. For example when classifying headquarters activity, the large Canadian multinational Alcan had its five SIC classifications considered once, as did all the other 469 Canadian parent companies. So, even though Alcan had 149 subsidiaries participating in mining and manufacturing operations, its influence within this agglomeration is equal to that of Fairfax Financial Holdings which had only three subsidiaries. But, when activity is measured at the foreign subsidiary level, frequency of direct investment was taken into account when classifying Canadian multinational activity. Both approaches provide unique information but the percentages applicable to the subsidiaries are arguably more comparable to the GDP share.

As shown, Canadian multinationals have tended to be far more active in both mining and manufacturing operations in comparison to what has been the norm for Canadian industry in general. Interestingly, roughly one-fifth of Canada's multinationals were engaged in mining activities, but

only 15.4% of their subsidiaries could be classified in such a capacity. In contrast, even though manufacturing was the most prevalent headquarters classification, these activities dominated the operations of foreign subsidiaries to an even greater extent.

In general, the proportionate activities of Canada-controlled foreign subsidiaries participating in F.I.R.E. compared well with this sector's relative GDP share. Whereas the proportion of MNE activity in agriculture, forestry and fishing, construction, retail and wholesale, services, and public administration was below the national trend in GDP share.

Transportation and communication MNEs make up a relatively small share of Canadian companies deemed multinational (listed at 4.6% of the total), but clearly their international emphasis is extremely pronounced as 16.4% of all foreign subsidiaries participated in such functions.

In conclusion, Canada's multinationals are most frequently classified as emphasizing mining, manufacturing or financial specialization. Yet, when considering the frequency of their foreign direct investments, manufacturing, transportation and communication and (to some degree) retail and wholesale activities become considerably more pronounced.

The relative importance of Canadian FDI activity varies noticeably with location. Displayed on Table 3.14 are the ten most important host countries for Canadian FDI and some intriguing observations can be made in this regard.

The proportion of Canadian MNE participation in primary activities, particularly mining, shows strong deviations from country to country. For instance, nearly one-third of all Canadian FDI in Australia was in the business of mining. Mining was also highly emphasized in Brazil, Barbados and Bermuda, whereas in the U.K. and the Netherlands the proportions were well below the world average. Generally, agriculture, forestry and fishing exploits are comparatively insignificant in terms of Canada's total FDI composition. However, a slight emphasis in these activities was

Table 3.14
Activities of Canadian Multinationals Abroad (shown in (percentages of the total number of activities in each country)

Country	Ag/Fr/Fi	Mining	Constrn	Manufact	Tran/Com
USA	0.5	14.4	2.2	32.3	18.2
UK	0.4	9.1	3.7	32.8	14.8
Australia	0.0	32.7	0.0	37.3	10.6
France	2.3	10.2	0.8	54.1	16.5
Netherlands	0.0	8.0	3.6	30.7	25.3
Brazil	0.0	22.4	1.6	45.6	0.0
Barbados	0.0	23.4	0.0	27.3	3.1
Germany	1.4	10.6	0.0	50.3	20.6
Hong Kong	1.3	5.7	0.0	29.9	8.9
Bermuda	0.0	21.6	2.6	22.9	29.4
World	0.5	15.4	2.0	33.5	16.4
Country	Wholesal	Retail	F.I.R.E.	Services	Total Activit.
USA	6.5	4.9	15.8	4.8	5092
UK	6.1	5.4	20.4	7.2	1423
Australia	7.6	0.9	5.6	5.3	303
France	5.2	4.5	2.6	3.4	266
Netherlands	0.9	8.0	15.6	8.0	225
Brazil	2.4	9.6	17.6	0.8	125
Barbados	1.6	3.1	35.2	6.3	128
Germany	4.3	4.3	5.0	3.5	141
Hong Kong	9.6	11.5	31.8	1.3	157
Bermuda	7.8	3.3	10.5	2.0	153
World	5.7	5.7	15.9	4.8	9780

Source: Who Owns Whom, North America. Dun and Bradstreet International (1992).

evident in France where the percentage was five times that of the world average.

Canada's most important contribution to world capital is in manufacturing. As shown, the lowest manufacturing emphasis was in Barbados, but the proportion was still at a weighty 27.3%. At the other extreme, over half of all Canadian direct investments made in both Germany and France were in manufacturing-related endeavours. Brazil-based subsidiaries, controlled by Canadian investors, tend to be biased towards the secondary sector as well.

Other outstanding examples of country-specific FDI-function emphasis include: transportation and communications (Bermuda, the Netherlands, and Germany), wholesale (Hong Kong, Bermuda and Australia), retail (Hong Kong, Brazil and the Netherlands), F.I.R.E. (Hong Kong, Barbados and the U.K.) and services (the Netherlands and the U.K.).

It should be noted that because of the overwhelming influence of the United States to the entire Canadian FDI situation, the activity breakdown for the U.S. is quite similar to the world average. Thus, as is the case globally, Canadian investment in the United States tends to be strongly attracted to manufacturing and finance activities and somewhat pronounced in mining and transportation and communication operations.

Finally, the activities of Canadian subsidiaries operating around the world can be compared to investments classified as associates or dormant companies. As shown on Table 3.15, the difference in proportions between subsidiaries and associates is not large; the same general trend in functional emphasis exists. However, manufacturing companies, representing the most dominant form of Canadian FDI, are also the most likely to become dormant.

Table 3.15
Activities of Foreign Subsidiaries, Associat and Dormant Firms
(given in percentage of total activity)

Activity	Subsidiaries	Associates	Dormant
Ag/Fr/Fi	0.5	0.9	0.0
Mining	15.4	20.2	18.4
Construction	2.0	3.4	0.6
Manufacturing	33.5	36.9	47.5
Trans/Comm	16.4	13.4	16.6
Wholesale	5.7	5.6	6.9
Retail	5.7	3.0	1.5
F.I.R.E.	15.9	10.2	1.9
Services	4.8	5.8	6.5
Other	0.1	0.5	0.1
Total Activities	9780	1045	1556

Source: Who Owns Whom, North America. Dun and Bradstreet International (1992).

Chapter 4
Canadian Direct Investment in the United States: Temporal, Functional and Spatial Trends

4.1) The Study Defined and the Data Used

The activities inherent to Canadian MNEs are examined further within this chapter by more closely considering the case of Canadian direct investment in the United States. By using an approach similar to the one featured in the last chapter, this chapter will present the temporal, spatial and functional patterns that emerge when cases of Canadian FDI in the U.S. are aggregated.

The gained utility in specifically considering U.S.-based Canadian direct investment is captured in essentially two ways. First, as discussed earlier, the United States is unequivocally the most important host nation for Canadian controlling capital and as such scrutiny of investment preferences within the U.S. market will greatly enhance the understanding of Canadian MNE behaviour. Second, due to the nature of the data collected, a highly detailed assessment of Canadian direct investments abroad (both in terms of investment location and particulars) is available for only Canada-controlled investments in the United States. By considering the U.S. scenario, it is possible to reveal more detailed location choices (both to the state and city level) and to be more specific concerning the characteristics of the controlled subsidiaries themselves (as data is available on sales, employment, value of investment and industry classification for the actual subsidiary and therefore need not be estimated by the characteristics of the parent firm).

In revealing the temporal, spatial and functional trends of Canadian FDI in the United States, two complementary data sources were used. The U.S. Department of Commerce's yearly collection of FDI transactions in the United States provides information on new direct investments and Dun and Bradstreet's America's Corporate Families and International Affiliates gives an assessment of all wholly-owned subsidiaries (with a net worth of

at least $500 000) operating in the United States as at a certain point in time. Thus, by using an approach similar to the one used in the previous chapter, all of the following observations and statements made within this chapter are based on extensive summaries (performed by the author of this thesis) of these publicly-available data sources.

As well, to gain a complete picture of Canada's presence within the American market, two key comparisons are made throughout the analysis. First, the characteristics and spatial biases of Canadian FDI are, whenever possible, compared to the total inflow of American FDI. Second, contemporary investment patterns (or post free-trade FDI activity) of Canadian parent firms are specifically noted to detect any deviance from previous investment patterns.

4.2) FDI Temporal Trends and Mode of Entry into the U.S. Market

As outlined in the last chapter, Canadian MNEs have made a definite impression within many world markets but in comparative-terms have favoured the U.S. market in FDI emphasis. As previously illustrated, by 1992 there were 2052 Canada-controlled subsidiaries (and another 129 associates) operating in the United States. Within this section an attempt is made to pinpoint the recent periods that have featured significant additions or comparatively small contributions to the present-day 2000-plus Canada-controlled subordinate firms operating in America.

New direct investment from Canada into the United States has, with some yearly fluctuations, generally declined in the period between the mid-1970s and the early-1990s. Table 4.1 shows the number and value of yearly transactions from 1977 to 1992. The years 1974 to 1976 are included as well but, as outlined in the last chapter, the data collected during these years poorly represents the United States' FDI situation. (U.S. Department of Commerce, 1985a, p. 14).

There are two noticeable peaks regarding Canadian FDI activity in America during this nineteen-year time-frame. The first one occurred in

Table 4.1
Canadian Transactions in the United States
(for the years 1974 to 1992)

Year	# Of Trans	% Of Total Trans	# Trans W/Value Known	Total Value $ Mil	Average Value $ Mil	% Of Total Value
1992	32	1.6	12	435.7	36.3	0.7
1991	50	2.5	22	1108.2	50.4	1.9
1990	46	2.3	20	1057.2	52.9	1.8
1989	88	4.3	39	3686.9	94.5	6.3
1988	86	4.2	43	13108.6	304.9	22.4
1987	121	6.0	54	1796.3	33.3	3.1
1986	114	5.6	56	6757.5	120.7	11.5
1985	99	4.9	40	2576.8	64.4	4.4
1984	127	6.3	52	2638.2	50.7	4.5
1983	95	4.7	57	2064.2	36.2	3.5
1982	168	8.3	58	3937.3	67.9	6.7
1981	291	14.3	139	10438.5	75.1	17.8
1980	260	12.8	115	3468.8	30.2	5.9
1979	178	8.8	99	2139.9	21.6	3.7
1978	121	6.0	71	1189.1	16.7	2.0
1977	100	4.9	67	1693.8	25.3	2.9
1976	18	0.9	10	185.6	18.6	0.3
1975	20	1.0	7	43.9	6.3	0.1
1974	16	0.8	9	259.7	28.9	0.4
Total	2030	100	970	58586.2	60.4	100

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1974 to 1992).

1981 when the number of new FDI transactions peaked at 291 after several years of steady increase. These 291 new contributions to America's total FDI stock represent over 14 percent of the total Canadian transactions (2030) listed between 1974 and 1992. The second peak in Canadian direct investment activity occurred later when the total value for transactions listed in 1988 reached an all time high of $13.1 billion. Also significant in 1988 was the comparatively high average value per investment. No other year comes close to this 1988 listing as the average Canadian FDI transaction in the United States was valued at $304.9 million.

In contrast to these peak years in Canadian FDI activity, the 1990s have displayed a clear decline in additional contributions to American direct investment stock. In 1992, for example, only 32 transactions were recorded (representing a mere 1.6% of the 2030 total) and the sizes of these investments were also comparatively small at $36.3 million per transaction. Depending on one's philosophy, then, it could be said that this decline corresponds well with the timing of the 1989 Canada-United States Free-Trade Agreement. As such, 'FDI as a response to market imperfections' proponents could argue that the 'agreement' has played a major role in discouraging new direct investment in contemporary times. Yet, the recession of the early 1990s, which caused many Canadian multinationals to 'down-scale' their operations, would indeed be another plausible explanation for this recent decline in new U.S.-based investments.

In comparison to direct investors from around the world, the Canadian contribution vis-a-vis other countries has remained significant through time. Table 4.2 shows the total direct investment inflow into the United States and the corresponding proportion that is Canada-controlled. Before 1986, Canada's proportion of transactions had always remained above 10 percent and periodically reached about one-fifth (in 1980 and 1982) and almost one-quarter (in 1977 and 1981) of total U.S. inflow. After 1986, the proportion of Canada-owned FDI inflow has definitely fallen. But even

Table 4.2
Yearly Assessment of Canadian Transactions in the United States
(showing total and Canadian FDI in the U.S.)

Year	Total U.S. Trans	Canadian Trans	% Can Trans
1992	512	32	6.3
1991	725	50	6.9
1990	1018	46	4.5
1989	1103	88	8.0
1988	1084	86	7.9
1987	1328	121	9.1
1986	1051	114	10.9
1985	912	99	10.9
1984	910	127	14.0
1983	751	95	12.7
1982	913	168	18.4
1981	1203	291	24.2
1980	1199	260	21.7
1979	1035	178	17.2
1978	677	121	17.9
1977	428	100	23.4

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1977 to 1992).

so, Canada remains the fourth most important supplier of new direct investment in the United States behind Japan, the U.K., and Germany (see Table 4.3). Where Canadian direct investment has most noticeably declined, vis-a-vis other investors in the 1990s, is with regards to the size of new direct investments made in the United States. The average Canadian transaction, valued at $48.2 million, lags well behind the prevailing world average (which was $97.4 million in the 1990s).

Although Canadian MNEs have tended to increase their stock in the U.S. market at a declining rate in recent times, it should be understood that Canada's direct investment presence within the large American market has always been, and continues to be, significant. The accumulated number of Canadian subsidiaries that remain in operation in the United States, as of 1992, has never been higher and is testimony to this importance. This assembling of Canadian capital in America has occurred through years of direct market access typically accomplished by: acquisitions or mergers, joint ventures, the establishment of new business entities, or real estate purchases. By looking at the trends inherent to these various modes of FDI entry, some interesting characteristics of Canadian multinationals are revealed.

Over the last couple of decades, Canadian direct investors have favoured either acquisitions and mergers or real estate purchases as modes of entry into the U.S. market. As shown on Table 4.4, these two types of FDI have made up over 70 percent of all transactions from 1974 to 1992. With respect to investment size, acquisitions and mergers have clearly been the largest. These 'takeovers' have had an average value per transaction of $100.8 million and have amassed in value to over half of the total for all Canadian transactions.

Canadian multinationals in general have made comparatively fewer start-up investments (listed as new plants and ranked third on Table 4.4). As well, these types of FDI transactions have tended to be the most modest in size (at an average of $11.7 million per investment). Whereas with plant expansions and equity increases (both being additions to already

Table 4.3
Transactions in the United States: By Country
(for the years 1990-1992)

Country or Region	# of Trans	% of Total Trans	# Trans W/Value Known	Total Value $ Mil	Ave Value $ Mil	% of Total Value
Japan	988	43.8	475	29 607.5	62.3	31.2
UK	240	10.6	119	12 478.8	104.9	13.2
Germany	171	7.6	58	10 509.6	181.2	11.1
Canada	128	5.7	54	2 601.1	48.2	2.7
France	124	5.5	42	17 199.9	409.5	18.1
Switzld	69	3.1	36	5 618.2	156.1	5.9
Italy	67	3.0	25	3 042.3	121.7	3.2
Sweden	55	2.4	23	2 198.3	95.6	2.3
Netheld	51	2.3	21	2 062.9	98.2	2.2
		84.0				89.9
World	2255	100.0	973	94 769.6	97.4	100.0

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1990, 1991 and 1992).

Table 4.4
Canadian Transactions in the United States: Mode of FDI Entry
(for the years 1974 to 1992)

Type	# Of Trans	% Of Total Trans	# Trans W/Value Known	Total Value $ Mil	Ave Value $ Mil	% Of Total Value
Acquisit/ Mergers	702	34.8	340	34267.4	100.8	58.7
Joint Ventures	56	2.8	22	864.6	39.3	1.4
New Plants	114	5.6	63	735.0	11.7	1.3
Real Estate	745	36.9	388	17591.5	45.3	30.1
Plant Expansion	66	3.4	46	1439.9	31.3	2.5
Equity Increase	85	4.2	54	3084.8	57.1	5.3
Other/ Unknown	251	12.4	37	398.1	10.8	0.7
Total	2019	100	950	58381.3	61.5	100

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1974 to 1992).

existing direct investments) and even with joint ventures, Canadian multinationals had, on an average value basis, invested more ambitiously.

These differences in value per investment are likely closely associated with uncertainty. Start-up investments are arguably more risk-intensive than other types of direct investments (such as 'takeovers' or increases to existing stock) which are made with at least some previous knowledge of the business entity in question. The trend seems to be, then, that Canadian 'green-field' investments are made in the U.S. at a comparatively small scale but with subsequent increases to value over time.

At any rate, acquisitions and mergers and real estate purchases have dominated the Canadian MNE approach to direct investment in the U.S., but the importance of each type has changed over time. Table 4.5 shows the temporal trends common to each of the various modes of FDI entry. In the late 1970s and early 1980s, real estate direct investments made up most of the transactions. As discussed earlier, this was also the period when the number of Canadian transactions (of all types) in the U.S. had reached its high point. Thus, the surge in Canadian FDI activity in this era (which peaked in 1981) can mostly be attributed to real estate purchases. After 1984 real estate purchases declined in proportional importance. Correspondingly, acquisitions and mergers had strongly increased by the mid-1980s and onward. Therefore, many of the highly-valued FDI transactions witnessed in 1988 were attained through 'takeover' type direct investments. Even after the late 1980s, when new Canadian FDI in general was in decline, the proportional share of acquisitions and mergers had steadily increased (along with a slight resurgence in start-up and joint venture FDI).

This emphasis on takeover and real estate FDI is still apparent in more recent times and can be highlighted further when Canadian multinational activity is put into the context of total inward U.S. direct investment. In contrast to the recent activity of all multinationals investing directly in the United States, Canadian MNEs have continued to

Table 4.5
Canadian Transactions in the United States: Yearly Percentages (for mode of entry)

Year	Acq/Mer	Joint Venture	New Plant	Plant Expans	Equity Increa	Real Estate
1992	68.8	6.3	9.4	3.1	0.0	0.0
1991	54.0	10.0	4.0	0.0	6.0	2.0
1990	52.2	0.0	13.0	6.5	6.5	4.3
1989	48.9	2.3	5.7	3.4	8.0	19.3
1988	54.7	7.0	3.5	3.5	7.0	12.8
1987	54.5	5.0	8.3	3.3	6.6	5.0
1986	50.0	3.5	8.8	1.8	8.8	14.0
1985	50.1	2.0	2.0	2.0	4.0	20.2
1984	24.4	2.4	6.3	11.8	3.1	22.8
1983	34.7	5.3	8.4	8.4	4.2	30.5
1982	20.2	1.8	5.4	3.0	6.0	58.3
1981	16.8	1.7	0.7	2.4	3.1	68.7
1980	27.3	2.7	5.0	2.7	3.5	52.3
1979	20.2	0.6	7.3	1.7	1.1	48.3
1978	23.1	0.8	7.4	1.7	4.1	46.3
1977	38.0	4.0	11.0	1.0	1.0	34.0
1974 to 1992	34.8	2.8	5.6	3.4	4.2	36.9

Note: year totals do not add to 100% because the 'other' category was not included.

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1974 to 1992).

utilize acquisitions, mergers and real estate purchases to a comparatively greater extent but have emphasized joint ventures and plant expansions somewhat less than have all MNEs combined (see Table 4.6). In addition, the small scale emphasis that has characterized new Canadian investments during the 1990s is further illustrated on Table 4.6. The average investment values listed for virtually all types of Canadian FDI (except plant expansions) has lagged well behind those shown for total U.S. inflow.

4.3) A Functional View of Canadian FDI in the United States

This section will describe the functional bias that Canadian MNEs exhibit when investing in the United States. This topic was partially addressed in the previous chapter (when the activities of Canadian-owned subsidiaries were compared for various countries of the world) and as a result this section will be brief. The value in reexamining the FDI-related activities that Canadian-controlled U.S. subsidiaries specialize in is twofold. First, accuracy is increased as the SIC codes for the actual U.S. subsidiaries are used and not just estimated from the parent company's listing. Second, the functional trends of new direct investment additions (as measured by the FDI transactions) can be compared to Canada's total U.S.-based FDI stock.

Previously it was shown that Canadian parent companies investing in the United States had an unequally large share of activities in the manufacturing and financial sectors and had some bias towards mining and transportation and communication functions. These conclusions are largely confirmed on Table 4.7. Except for under-estimating the importance of wholesaling and service activities and over-estimating the transportation and communication sector, last chapter's appraisal of U.S. subsidiary activity (based on parent company SIC code listings) was fairly accurate.

New direct investments made by Canadian business in the U.S. tended to follow the same well-entrenched pattern of activity bias as well. Most

Table 4.6
Mode of FDI Entry Comparisons: Total U.S. Inflow Versus Canadian Direct Investment in the U.S. (1990-1992)

Type	Total U.S. Inflow (%)	Canadian Inflow (%)	Ave U.S. Value ($ Mil)	Ave Can. Value ($ Mil)
Acquis/Merger	44.1	57.8	115.7	55.7
Equity Inc	4.7	4.7	130.1	48.9
Joint Ventures	8.6	5.5	62.1	56.3
New Plants	9.8	8.6	49.4	26.7
Plant Expans	6.6	3.1	37.1	40.4
Real Estate	0.8	2.3	62.5	28.7
Other	25.5	18.0	31.7	26.1
	100.0	100.0		
Ave Value of All Trans			94.5	48.2
Total Trans (No.)	2255	128		

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1990, 1991 and 1992).

Table 4.7
Canadian-Owned Subsidiaries in the United States: By Activity

Activity	1984-90 (%)	1990 (Number)	1990 (%)
Agr/For/Fishing	0.3	6	0.6
Mining	11.1	84	7.9
Construction	3.2	37	3.5
Manufacturing	28.7	342	32.2
Transport/Commun	5.3	56	5.3
Wholesale	12.2	114	10.7
Retail	4.7	53	5.0
Finance/Ins/R.E.	21.4	220	20.7
Services	12.7	151	14.2
Non-Classified	0.4	0	0.0
Total Activities	100.0	1063	100.0

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (Volumes 1984 to 1990).

new direct investment additions to the American market via Canadian MNEs made between 1974 and 1992 were either in the manufacturing or financial (particularly real estate) sectors (see Table 4.8). But interestingly, investments made in the retail sector, although comparatively few in number, were by far the largest in size (at an average investment value of $422.9 million). When looking specifically at the years 1990 to 1992, retail transactions were still larger than the average Canadian investment but, as shown on Table 4.9, direct investments in financial and insurance activities featured the highest average value in more recent times.

Also shown on Table 4.9 is an assessment of how well the subset of Canadian MNEs can be distinguished from the U.S. direct investment universe with respect to industrial sector preference. And, for some sectors, there is close assimilation. For example, Canadian firms collectively have exploited the American manufacturing sector in a proportion that was virtually equal to that for all direct investors operating in the United States. Also comparable is the overall insignificance of the agriculture, fishing, forest, construction, and public administration sectors. Yet, Canadian MNEs and the rest of the U.S. inflow universe do have points of deviance. Notably, Canadian firms have commonly placed greater emphasis on mining, transportation and communication and F.I.R.E. activities but have specialized less in retail and especially in wholesale.

4.4) A Spatial View of Canadian FDI Activity in the U.S.

The spatial pattern of Canadian direct investment within the United States is not a random one; important nodes containing sizable portions of Canadian direct investment have emerged over space. In efforts to reveal, describe, and estimate the importance of this spatial pattern of FDI; two general topics will be addressed. First, it will be identified where, at both the state and SMSA level, Canadian MNEs have set up subsidiaries in the United States. The location preferences of both established and new

Table 4.8
Canadian Transactions in the United States: By Activity
(for the years 1974 to 1992)

Activity	# Of Trans	% Of Total Trans	# Trans W/Value Known	Total Value $ Mil	Ave Value $ Mil	% Of Total Value
Agri/For/ Fishing	6	0.3	4	13.7	3.4	-
Mining	146	7.2	95	2926.3	30.8	5.0
Construct	12	0.6	5	359.5	71.9	0.6
Manufact	610	30.2	296	17141.6	57.9	29.5
Transport /Commun	107	5.3	25	1768.8	70.8	3.0
Wholesale	60	3.0	15	296.3	19.8	0.5
Retail	82	4.1	35	14802.6	422.9	25.4
Finance/ Insurance	83	4.1	32	1524.2	47.6	2.6
Real Estate	756	37.5	385	17662.0	45.9	30.4
Services	148	7.3	70	1681.6	24.0	2.9
Public Admin	7	0.3	-	-	-	-
Totals	2017	99.9	962	58176.6	60.5	99.9

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1974 to 1991).

Table 4.9
FDI Activity Comparisons: Total U.S. Inflow Versus Canadian Direct Investment in the U.S. (1990-1992)

Activity	Total U.S. Inflow (%)	Canadian Inflow (%)	Ave U.S. Value ($ Mil)	Ave Can. Value ($ Mil)
Agr/Fish/For	0.4	-	11.0	-
Mining	2.9	4.7	124.9	39.6
Construction	0.1	-	52.0	-
Manufacturing	43.9	43.8	91.2	48.5
Trans/Commun	9.9	15.6	73.6	36.4
Wholesale	8.2	1.6	45.9	-
Retail	7.5	5.5	73.0	76.0
Finance/Insur	5.5	7.0	267.6	162.3
Real Estate	7.9	10.2	39.2	15.8
Services	13.1	11.7	106.9	28.1
Public Admin	0.6	-	0.5	-
	100.0	100.0		
Ave Value of All Trans			94.5	48.2
Total Trans (No.)	2255	128		

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1990, 1991, 1992).

Canadian FDI (as measured through FDI transactions) will be discussed. Second, the importance of Canadian FDI will be explored by considering where over American space significant sales and employment accumulations, via the operations of Canadian-owned subsidiaries, have congregated.

4.4.1) The Location of Canadian Subsidiaries and FDI Transactions in the United States

Tables 4.10 and 4.11 (disaggregated by state and SMSA respectively) are summaries of a seven-year assessment of Canadian subsidiaries operating in America. It should be reiterated that care must be taken in interpreting year to year changes; an increase in subsidiary number may suggest more comprehensiveness in sample coverage rather than actual changes in actual FDI emphasis. As a result, seven year averages in conjunction with the most recent listing (1990) were used most often in interpreting the results.

With respect to the actual number of Canadian-owned subsidiaries, New York state has been the most important location for Canadian FDI. And, as happens for so many other economic functions, the vast majority of this investment has been centred in the New York SMSA. For 1990, 105 (or 12.4%) of all Canadian-owned subsidiaries operating in the U.S. was in New York state and 70 of them (8.3%) within metropolitan New York. New York city seems to have increased its attractiveness to Canadian investors in recent times as the 1990 figure of 70 subsidiaries has exceeded the seven-year average of 60.3. In contrast, an opposite trend exists for the state, where there were slightly fewer subsidiaries in 1990 as here were on average from the period 1984 to 1990. This decline in subsidiary presence is also evident in Buffalo (the state's only other city that has ordinarily been strongly linked with Canadian FDI activity).

There are other extremely important host locations for Canadian MNE activity in the U.S. as well. Largely on the strength of the Los Angeles and San Francisco local economies, California has typically ranked second behind New York state in capturing a disproportionate amount of Canadian capital. Yet recently, the state's share has declined (from a seven-year average of 8.5% to 6.9% in 1990) and much of this can be attributed to the

Table 4.10
Canadian-Owned Subsidiaries in the United States: By State
(ranked by number of subsidiaries)

State	Ave # Subs (1984-90)	Percent (1984-90)	# of Subs 1990	Percent 1990
New York	107.3	14.4	105	12.4
California	63.7	8.5	58	6.9
Texas	48.9	6.5	38	4.5
Florida	40.6	5.4	38	4.5
Colorado	35.3	4.7	28	3.3
Illinois	33.7	4.5	44	5.2
Washington	31.6	4.2	40	4.7
Michigan	29.9	4.0	32	3.8
Pennsylvania	26.1	3.5	24	2.8
Ohio	23.9	3.2	28	3.3
Georgia	22.9	3.1	27	3.2
Massachusetts	20.6	2.8	32	3.8
Arizona	19.4	2.6	24	2.8
New Jersey	17.7	2.4	23	2.7
N. Carolina	17.3	2.3	19	2.3
Connecticut	15.4	2.1	20	2.4
Delaware	14.7	2.0	18	2.1
Minnesota	14.4	1.9	27	3.2
Wisconsin	13.7	1.8	20	2.4
Tennessee	11.7	1.6	16	1.9
Oregon	10.9	1.5	15	1.7
Alaska	9.0	1.2	8	1.0
Virginia	8.6	1.1	11	1.3
Maine	8.3	1.1	13	1.5
Nevada	8.3	1.1	9	1.1
USA	746.0	84.4	845	84.8

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (Volumes 1984 to 1990).

Table 4.11
Number of Canadian-Owned Subsidiaries in the United States
(by SMSA for the years 1984 to 1990)

SMSA	AVE	84	85	86	87	88	89	90
New York	60.3	56	56	59	62	51	68	70
Denver	34.4	29	40	37	49	27	32	27
Chicago	31.6	18	19	34	37	36	37	40
Los Angeles	23.9	10	15	19	19	24	40	40
Houston	22.6	15	25	29	33	21	21	14
Detroit	21.4	13	20	24	24	23	25	21
Seattle	21.4	15	21	20	25	22	24	23
Buffalo	20.4	15	20	22	23	22	24	17
San Francisco	20.1	23	30	21	18	18	17	14
Atlanta	18.3	8	16	20	23	19	23	19
Boston	17.7	7	8	10	15	22	34	28
Phoenix	16.0	10	10	14	17	18	21	22
Minneapolis	13.0	9	11	11	11	9	15	25
Wilmington	12.4	6	8	8	13	15	20	17
Dallas-Ft Wo	12.1	2	10	14	10	17	20	12
Naples (town)	10.0	14	15	17	11	13	0	0
Pittsburgh	9.9	7	8	10	10	12	15	7
Portland (OR)	8.3	5	6	6	6	12	12	11
Stamford	7.7	3	4	4	5	12	12	10
Washington	7.3	6	8	8	11	7	4	7
Milwaukee	7.3	2	4	7	8	8	11	11
Philadelphia	6.9	8	5	6	9	5	8	7
Newark	6.7	6	7	7	7	7	7	6
Anchorage	6.6	7	7	7	6	6	7	6
Cleveland	6.1	4	6	5	7	6	6	9

Source: America's Corporate Families and International Affiliates, Volume II. Dun and Bradstreet Corporation (Volumes 1984 to 1990).

reduced number of Canadian subsidiaries located in San Francisco. In contrast, the Los Angeles SMSA has somewhat offset this state-wide decline by attracting increasingly more Canadian FDI. In 1990 there were 40 Canadian-controlled subsidiaries in Los Angeles, which is up considerably from the seven-year average of 23.9.

Besides California, two other southern states, Texas and Florida, show up strongly within this spatial analysis as well. Both have captured an identical 4.5% share of Canadian investment activity in 1990 and both states have had this proportion drop over time. Where the two states differ is in their big city bias. In that, most of the Canadian subsidiaries that have located in Texas (as of 1990) have been centred in either Houston (1.7%) or in Dallas-Ft Worth (1.4%). Whereas with Florida, only the town of Naples emerged among the top 25 SMSAs (and only for the seven-year average - as of 1990 there were no Canadian subsidiaries in Naples). Thus, Canadian direct investments exhibit a more state-wide, rather than a SMSA-nodal, pattern in Florida; the opposite tends to be the norm for Texas.

The situation that exists in Florida is generally unique (with Ohio being somewhat like Florida in this regard). More often, there is one key SMSA that effectively polarizes Canadian direct investment. For instance in 1990, 27 of Colorado's 28 Canadian direct investments were in Denver. Canadian subsidiaries are also polarized within one key SMSA in Illinois (Chicago had 40 of 44), Arizona (Phoenix had 22 of 24), Minnesota (Minneapolis had 25 of 27), Delaware (Wilmington had 17 of 18), Massachusetts (Boston had 28 of 32), and to some degree Georgia (Atlanta had 19 of 27). Of these state-dominating SMSAs, only in Denver has there been a reduction in the number of Canadian subsidiaries; Chicago, Boston and Minneapolis showed considerable subsidiary increase and Phoenix and Wilmington have benefitted from moderate additions in Canadian-controlled assets.

Finally, Detroit and Seattle provide two examples of SMSAs that have consistently maintained a large base of Canadian capital yet,

simultaneously, have tended not to eclipse investment from settling in other parts of the state. For instance, Detroit has a sizeable collection of Canadian subsidiaries (21 were located here in 1990) and outside the city's metropolitan area, another 11 subsidiaries in Michigan have been set up. A similar situation exists in Washington state where Seattle has always ranked highly in housing Canadian subsidiaries (23 in 1990) but other areas in the state of Washington have successfully attracted investment (an additional 17 Canadian subsidiaries) as well.

Thus, one can identify spatial nodes of Canadian FDI activity in the United States whether compared at the inner- or outer-state level. Considering the location patterns of Canadian FDI within the SMSA is also admissible. On Table 4.12 such information is provided as, for selected SMSAs, a comparison of inner-city versus suburban Canadian FDI is offered.

Two striking observations can be made from the data presented. First, for SMSAs in general, there has been a tendency for more Canadian subsidiaries to locate in the centre cities vis-a-vis the suburbs. This inner city bias, however, has tended to decrease over time. Second, in some SMSAs, Canadian subsidiaries have been located almost exclusively within the inner city; for other SMSAs, the outer city suburbs have clearly been emphasized. For instance, the inner city has certainly been favoured by Canadian multinationals in New York, Denver, Minneapolis, Atlanta, Wilmington, Houston, and Portland (Maine and Oregon). Whereas in SMSAs such as Los Angeles, Chicago, Boston, Detroit and Boston, direct investment within the inner cities has tended to be far less prevalent.

The intent of this section was to emphasize those states and SMSAs utilized most frequently by Canadian direct investors. Yet, it should be understood that every state has had at least one Canadian subsidiary locate within its borders at some point between 1984 in 1990. Thus, it can be said that Canadian multinational activity is well represented throughout the United States even though, as shown on Tables 4.10 and 4.11, this direct investment emphasis has been uneven over American space.

What also tends to be unequal is the activity concentration of

Table 4.12
Canadian Direct Investment in the United States (Showing percent of FDI within the inner cities for selected SMSAs)

SMSA	% Inner City 1990	% Inner City 1985
New York	81.4	91.1
Los Angeles	27.5	46.7
Chicago	37.5	42.1
Boston	35.7	62.5
Denver	85.2	85.0
Minneapolis	92.0	81.8
Seattle	69.6	65.0
Phoenix	50.0	100.0
Detroit	33.3	15.0
Atlanta	73.7	87.5
Wilmington	100.0	100.0
Buffalo	41.2	60.0
Houston	85.7	92.0
San Francisco	64.3	70.0
Dallas-Ft Worth	58.3	80.0
Portland (OR)	90.1	100.0
Milwaukee	81.1	100.0
Stamford	20.0	100.0
Cleveland	100.0	83.3
Spokane	100.0	100.0
Nashville	44.4	100.0
Tampa	25.0	50.0
Miami	85.7	100.0
Portland (ME)	100.0	100.0
Bergen-Passaic	0.0	0.0
USA	55.7	63.0

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (Volumes 1985 and 1990).

Canadian MNEs from state to state. As revealed on Table 4.13, the state-wide activity profiles for the eight most attractive American states, from the perspective of Canadian direct investors, differs considerably.

In comparison to what generally prevailed in the United States for the year 1990, mining activities were much more prevalent in Washington and Texas but non-existent in Florida, Massachusetts, and Michigan. The manufacturing sector, although important for all of the listed states, is particularly noteworthy in Michigan where 60% of all Canadian-owned state activity was in this sector. Canadian subsidiaries specializing in transportation or communication operations were emphasized more frequently in the States of California, Illinois and Michigan. In New York especially, and in Washington and Massachusetts, the presence of Canadian controlled wholesalers was much more pronounced than in comparison to this sector's country-wide proportion. Also, in Massachusetts, there exists a higher than average propensity for Canadian subsidiaries to be involved in retail-related operations. Within the state of Illinois (and to a lesser degree New York, California and Massachusetts) there was a comparatively greater likelihood for Canadian subsidiaries to be classified within the F.I.R.E. sector; and for Florida and again for Massachusetts, a clear service sector bias can be noted as well.

Therefore, Canadian subsidiaries not only display a discernible spatial pattern across American space, but also reveal definite activity biases with location as well. What also needs to be discussed within this analysis is how these spatial patterns differ when considered from the perspective of new Canadian FDI.

By looking at the number of transactions per state (as shown on Table 4.14), it can be seen that new investment generally follows the spatial trend established by the subsidiaries but some striking contrasts can still be seen. Although New York, California, Texas, Florida, Colorado, and Illinois (in order) have been the six top states in housing Canadian subsidiaries, this ranking is somewhat disrupted when the number of new Canadian direct investments is considered. Specifically, Florida

Table 4.13
Canadian-Owned Subsidiaries in the United States: By Activity
(given in percent for 1990)

Acty	NY	CA	IL	WA	TX	FL	MA	MI	USA
AFF	0.0	4.1	1.8	0.0	0.0	0.0	0.0	0.0	0.6
Mini	3.7	6.2	1.8	24.5	26.7	0.0	0.0	0.0	7.9
Cons	0.0	6.2	0.0	5.7	2.2	4.1	0.0	0.0	3.5
Manu	28.9	26.8	35.1	30.2	31.1	28.6	23.1	60.0	32.2
T/C	2.2	10.3	7.0	3.8	6.7	6.1	0.0	7.5	5.3
Whol	20.7	4.1	5.3	17.0	2.2	10.2	17.9	7.5	10.7
Reta	5.2	2.1	5.3	5.7	2.2	4.1	12.8	0.0	5.0
FINE	27.4	25.8	42.1	7.5	17.8	22.4	25.6	10.0	20.7
Serv	11.9	14.4	1.8	5.7	11.1	24.5	20.5	15.0	14.2
Tota Act	135	97	57	53	45	49	39	40	1063

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (1990).

Table 4.14
Canadian Transactions in the United States: By State
(for the years 1974 to 1992)

State	# Of Trans	% Of Total Trans	Trans Value Known	Total Value $ Mil	Ave Val $ Mil	% Of Total Value
FL	266	14.0	135	3701.2	27.4	6.3
CA	246	12.9	125	6971.6	55.8	11.9
NY	210	11.0	94	8028.1	85.4	13.7
TX	186	9.8	81	5642.7	69.7	9.6
CO	97	5.1	46	1461.8	31.8	2.5
IL	65	3.4	23	1876.8	81.6	3.2
PA	57	3.0	26	1197.1	46.0	2.0
GA	53	2.8	22	810.8	36.9	1.4
NJ	51	2.7	20	781.2	39.1	1.3
MA	49	2.6	21	961.8	45.8	1.6
AZ	47	2.5	24	1132.2	47.2	1.9
WA	44	2.3	23	1012.3	44.0	1.7
OH	44	2.2	24	10362.4	431.8	17.7
MI	40	2.1	15	924.8	61.7	1.6
CT	36	1.9	18	1727.1	95.9	2.9
TN	35	1.8	18	229.2	12.7	0.4
NC	34	1.8	20	639.5	32.0	1.1
MN	30	1.6	16	1253.3	78.3	2.1
VA	29	1.5	11	140.4	12.8	0.2
MD	28	1.5	13	255.4	19.6	0.4
OR	21	1.1	5	165.9	37.3	0.3
MO	19	1.0	9	788.8	87.6	1.3
DE	14	0.7	5	2822.1	564.4	4.8
USA	1906	100	970	58586.2	60.4	100

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1974 to 1992).

leads California and even New York in the number of Canadian transactions made between 1974 and 1992.

Yet, when value of investment is considered, Florida displays an average value per transaction ($27.4 million) that was well below that of the U.S. average ($60.4 million). Elsewhere, the comparatively high average value of Canadian direct investment is perhaps expected for New York transactions (it was $85.4 million) but surprising was the high placing of Ohio and Delaware. More money was invested in Ohio-based investments than in anywhere else in the United States and the average value per investment of these transactions was $431.8 million in Ohio and $564.4 million in Delaware.

In the 1990s, the average value of Canadian transactions was $47.8 million which lagged behind the total U.S. inflow average of $94.6 million per transaction (see Table 4.15). Only in Ohio, where the value of Canadian direct investment has remained high even in contemporary times, has Canadian investment been recorded at higher than total inflow levels. With respect to the number of transactions, Canadian MNEs have in comparative terms emphasized New York and Texas but under-utilized the markets in California and New Jersey.

So, even though the rate of additional direct investment has generally slowed in the post free-trade era, there have been (and continues to be) significant levels of Canadian-controlled assets south of the border. It has been demonstrated that not only are there U.S. locations that have attracted a disproportionate amount of Canadian direct investment activity, but also that many of these areas have encouraged a certain degree of FDI specialization. Within the last section of this chapter an attempt is made to further qualify the significance of Canadian MNE activity by adding subsidiary sales and employment figures to this spatial analysis.

4.4.2) The Importance of Canadian FDI - The Spatial Pattern of Employment and Sales

Some important observations can be made by considering the sales and employment spatial trends of Canadian direct investment in the United

Table 4.15
State FDI Comparisons: Total U.S. Inflow Versus Canadian Direct Investment in the U.S. (1990-1992)

State	Total U.S. Inflow (%)	Ave Val ($ Mil)	State	Can. Inflow (%)	Ave Val ($Mil)
CA	18.0	146.4	NY	17.2	49.6
NY	12.6	99.8	TX	13.3	31.1
TX	8.8	87.8	CA	8.6	28.1
FL	6.4	25.3	FL	6.3	8.7
NJ	4.2	113.5	NC	4.7	11.2
OH	3.6	96.6	OH	4.7	151.2
GA	3.1	70.4	IL	3.9	18.7
MI	2.9	65.4	MA	3.9	40.0
IL	2.8	157.8	MI	3.9	-
NC	2.8	40.5	VA	3.1	0.9
MA	2.8	146.4	AZ	2.3	25.8
VA	2.6	77.1	CO	2.3	7.0
PA	2.5	177.5	PA	2.3	65.0
CO	2.2	60.0			
HI	2.1	44.8			
Total No.	2244			128	
Ave Value		94.6			47.8

Source: Foreign Direct Investment in the United States. U.S. Department of Commerce, International Trade Administration (Volumes 1990, 1991, 1992).

States. As argued previously, the local economy of a foreign destination benefits by the presence of an externally-controlled subsidiary directly, through job creation and indirectly, through the subsidiary's business linkages to other firms in the community (the magnitude of which can be estimated by sales). This transfer of economic benefit away from Canada that occurs through the activities of Canadian multinationals can be estimated by considering the sales and employment levels of their foreign (or in this case U.S.) subsidiaries. Aggregated sales totals are, as well, probably the best single indicator of size and/or corporate influence.

The distribution of sales accruing from the business operations of Canadian-owned subsidiaries in the U.S. is quite unequally-shared across America; perhaps even more unequally divided than is the actual number of subsidiaries. As shown on Tables 4.16 and 4.17 (at the state and SMSA level respectively), the dominance of New York state and city is evident. The total accumulation of sales from Canadian subsidiaries in the state of New York, over the seven-year period of 1984 to 1990, was a massive 18.6% of the U.S. total or over $60 billion. For the most recent year of 1990, New York's disproportionately large share of economic activity (derived from Canadian FDI) has remained at a nation high of 19%. Not only do these sales estimates suggest that New York state (particularly New York city) has benefited the most from Canadian multinational activity, but that there has been a tendency for more of the larger Canadian-controlled subsidiaries to loc e here as well.

There are other locations in the United States that are worthy of mention from the standpoint of subsidiary sales accumulations. A distant second within this regard is the state of California (led by the SMSA of Los Angeles). Yet, when comparing the proportional sales of 1990 with that of the seven-year total, it can be said that sales accruing from California-based subsidiaries, have dropped in more recent times. On the other hand, states that have benefited from an increase in Canadian subsidiary sales are Michigan, Ohio, Tennessee and New Jersey. Important

Table 4.16
Total Sales of Canadian-Owned Subsidiaries in the United States
(ranked by state, given in millions of dollars)

State	Sales 1984-90	%	Ave/ Sub	Sales 1990	%	Ave/ Sub
New York	60 666	18.6	254.9	12 618	19.0	341.0
Calif	28 468	8.7	132.4	3 617	5.4	92.7
Michigan	22 232	6.8	229.2	6 726	10.1	448.4
Washing	21 854	6.7	176.2	2 891	4.3	131.4
Ohio	21 838	6.7	330.9	6 948	10.4	534.5
Tenne	20 463	6.3	454.7	4 872	7.3	442.9
Colorado	17 654	5.4	156.2	1 471	2.2	91.9
Illinois	14 668	4.5	190.5	3 519	5.3	251.4
Florida	14 029	4.3	152.5	1 090	1.6	90.8
Texas	13 251	4.1	101.2	2 496	3.8	156.0
New Jer	11 465	3.5	176.4	3 962	6.0	283.0
N. Carol	9 514	2.9	194.2	2 510	3.8	278.9
Virginia	8 023	2.5	308.6	1 974	3.0	394.8
Wiscon	7 875	2.4	154.4	2 307	3.5	209.7
Oregon	6 821	2.1	166.4	1 656	2.5	236.6
New Hamp	5 404	1.7	415.7	706	1.1	353.0
Connecti	5 380	1.7	128.1	97	0.2	16.2
Arizona	4 208	1.3	85.9	195	0.3	39.0
Pennsyl	3 569	1.1	54.1	687	1.0	62.5
Minnes	3 545	1.1	122.2	1 835	2.8	229.4
Georgia	3 344	1.0	69.7	558	0.8	55.8
Wyoming	3 168	1.0	243.7	-	-	-
Massachu	2 491	0.8	59.3	760	1.1	69.1
Iowa	2 452	0.8	245.2	192	0.3	96.0
Maine	1 874	0.6	50.6	885	1.3	98.3
USA	326 047	100.0	162.1	66 571	100.0	194.7

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (Volumes 1984 to 1990).

Table 4.17
Total Sales of Canadian-Owned Subsidiaries in the United States
(ranked by SMSA, given in millions of dollars)

SMSA	Sales 1984-90	Percent Sales	# Known Cases	Ave Sales Per Subsid
New York	47 843	14.7	116	412.4
Los Angeles	17 422	5.3	90	193.6
Seattle	17 421	5.3	71	245.4
Nashville	14 245	5.3	22	783.9
Denver	16 214	5.0	109	148.8
Detroit	15 377	4.7	58	265.1
Cleveland	14 802	4.5	17	870.7
Chicago	14 491	4.4	68	213.1
Newark	8 028	2.5	26	308.9
Washington	6 327	1.9	15	421.8
Houston	6 278	1.9	53	118.5
Miami	6 208	1.9	17	365.2
Milwaukee	5 764	1.8	32	180.1
San Francisco	5 009	1.5	44	113.8
Portland (OR)	4 785	1.5	30	159.5
Stamford	4 352	1.3	22	197.8
Buffalo	4 156	1.3	56	74.2
Phoenix	3 936	1.2	44	89.5
Minneapolis	2 865	0.9	22	130.2
Tampa	2 781	0.9	19	146.4
Boston	2 490	0.8	41	60.7
Dallas-Ft Wth	2 407	0.7	35	68.8
Atlanta	2 036	0.6	33	61.7
Bergen-Passaic	1 939	0.6	16	121.1
USA (1984-90)	326 047	100.0	2012	162.1

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (Volumes 1984 to 1990).

SMSAs from the standpoint of sales are the aforementioned New York and Los Angeles metropolitan areas but somewhat surprising is the emergence of Seattle and Nashville with a the top five and Newark within the top ten (as listed on Table 4.17). In fact, in comparing the top SMSAs based on sales against those based on number of subsidiaries (as presented earlier on Table 4.11) the rankings for most of the SMSAs differ considerably.

Still another pattern of Canadian direct investment emerges over American space when employment is used to describe Canadian MNE importance. On average Canadian subsidiaries stationed in the state of Illinois have virtually equalled those in New York regarding total job creation significance; but when one considers average employment per firm, subsidiaries located in Illinois (and particularly Chicago) have dominated from 1984 to 1990 (consult Tables 4.18 and 4.19). Canadian MNEs that have invested in the states of California and Texas have provided the local economies with substantial job opportunities and this was expected given the number of Canadian subsidiaries within these states. But Iowa, which placed fifth with respect to average yearly accumulated employment, was not even listed in the top 25 for states hosting the most Canadian subsidiaries (Table 4.10).

There are many other examples of states and SMSAs that are important to Canadian MNEs from a direct investment standpoint but, at the same time, are not locations that are as important from the standpoint of sales or employment generation (and vice versa). The last section of this chapter illustrates this issue further by considering actual CMA-SMSA spatial connections. The following three tables, complete with both CMA parent company and SMSA subsidiary locations, were constructed using number of subsidiary (Table 4.20), sales (Table 4.21) and employment (Table 4.22) totals to illustrate the FDI 'control' linkages that extend from Canada to the United States. (Some locations that could not be agglomerated into either CMAs or SMSAs remain as towns).

The 'strength' or 'value' of each spatial linkage was measured by the frequency count of subsidiaries, workers or dollars that were

Table 4.18
Employment of Canadian-Owned Subsidiaries in the United States
(ranked by state)

State	Ave Emp 1984-90	%	Ave/ Sub	Ave Em 1990	%	Ave/ Sub
Illinois	6507.3	10.5	271	5594	8.0	186
New York	6358.4	10.2	238	7522	10.7	98
Califor	4898.4	7.9	109	6238	8.9	108
Texas	4316.4	7.0	134	1132	1.6	40
Iowa	3569.9	5.8	862	887	1.3	177
N. Carol	3502.6	5.6	245	3893	5.5	243
Georgia	3345.6	5.4	244	4530	6.5	283
Michigan	2803.6	4.5	119	4545	6.5	189
Ohio	2090.9	3.4	124	3932	5.6	179
Florida	1739.9	2.8	90	2332	3.3	123
Massachu	1586.3	2.6	137	3979	5.7	159
New Jer	1581.3	2.5	133	2539	3.6	141
Tenn	1430.3	2.3	139	1857	2.7	124
W. Virg	1411.9	2.3	471	1537	2.2	512
Pennsyl	1411.1	2.3	77	1171	1.7	69
Wiscon	1374.1	2.2	123	1508	2.2	89
Alabama	1295.0	2.1	349	1082	1.5	361
Washing	1242.4	2.0	53	3053	4.4	102
Arizona	1086.7	1.8	77	719	1.0	42
Minnes	1016.9	1.6	134	1519	2.2	117
Colorado	930.1	1.5	37	566	0.8	27
Maine	830.9	1.3	135	1645	2.5	183
Virginia	766.1	1.2	117	1259	1.8	180
Connect	727.4	1.2	65	657	0.9	47
Kentucky	708.6	1.1	155	551	0.8	79
USA	434 374	100.0	122	70086	100.0	120

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (Volumes 1984 to 1990).

Table 4.19
Employment of Canadian-Owned Subsidiaries in the United States
(ranked by SMSA)

SMSA	Employment 1990 (No)	Employment 1990 (%)	Ave Employ Per Sub (1984-90)
New York	5511	7.9	89.3
Chicago	5484	7.8	290.2
Detroit	3761	5.4	96.5
Boston	3673	5.2	143.7
Atlanta	2965	4.2	199.3
Los Angeles	2922	4.2	128.4
Seattle	2234	3.2	62.8
Minneapolis	1376	2.0	91.5
Tampa	1201	1.7	135.1
Nashville	1145	1.6	72.5
Buffalo	1115	1.6	173.0
Newark	1111	1.6	103.2
San Francisco	1110	1.6	233.2
Washington	966	1.4	182.1
Milwaukee	850	1.2	74.6
Cleveland	739	1.0	108.2
Phoenix	698	1.0	72.6
Denver	554	0.8	38.4
Dallas-Ft Worth	528	0.8	33.9
Miami	450	0.6	56.9
Philadelphia	425	0.6	62.5
Spokane	375	0.5	36.3
Pittsburgh	339	0.5	58.3
Stamford	213	0.3	70.4
USA	70086	100.0	122.0

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (Volumes 1984 to 1990).

Table 4.20
CMA - SMSA Connections (1990): By Number of Subsidiaries

TORONTO		MONTREAL		VANCOUVER	
New York	46	Chicago	20	Seattle	10
Los Angeles	19	New York	15	Los Angeles	8
Chicago	15	Boston	11	San Francisco	8
Detroit	12	Minneapolis	9	Spokane	8
Boston	11	Atlanta	8	New York	5
Buffalo	10	Stamford	6	Portland (OR)	5
Phoenix	10	Detroit	5	Houston	4
Milwaukee	10	Seattle	5		
Atlanta	8	Plattsburgh	4	CALGARY	
Wilmington	8	Rocky Mount	4	Denver	10
Seattle	7	Columbia	4	Dallas-FW	8
Denver	7	Phoenix	4		
Cleveland	6	Wilmington	4	HAMILTON	
Nashville	6	Miami	4	Charleston	4
Ft Lauderdale	5	Portland (OR)	4		
Cincinnati	4	Baltimore	4	LONDON	
Houston	4			Eugene	4
Pittsburgh	4	WINNIPEG			
Philadelphia	4	Minneapolis	9		
Anchorage	4				
Tampa	4				
Bergen-Passiac	4				

Note: total number of subsidiaries in the United States in 1990 was 845.

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (1990).

Table 4.21
CMA - SMSA Connections (1990): By Sales (in millions of dollars)

TORONTO		MONTREAL		VANCOUVER	
Cincinnati	7958	New York	6566	Seattle	1414
New York	3858	Nashville	3149	Plattsburgh	500
Detroit	3401	Cleveland	2350	Spokane	497
Chicago	3333	Washington	1390	Houston	340
Milwaukee	2055	Rocky Mount	1239		
Nashville	1422	Minneapolis	1180	CALGARY	
Seattle	929	Plattsburgh	793	Dallas-FW	955
San Antonio	925	Detroit	673	Los Angeles	951
Charlotte	872	Miami	545	Denver	912
Portland (OR)	778	Middlesex-Som	468		
Bergen-Pass	730	Norfolk	345	WINNIPEG	
Grand Rapids	650			Minneapolis	535
Hanover	476	WINDSOR			
Los Angeles	466	Detroit	849	EDMONTON	
San Diego	340			Denver	486
Tampa	333	HAMILTON			
		Detroit	750	FLORENCEVILLE	
LONDON				Easton	500
Newark	2000	WOODSTOCK			
Eugene	866	Los Angeles	683		

Note: total sales in all of United States in 1990 was $66.571 billion.

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (1990).

Table 4.22
CMA - SMSA Connections (1990): By Number Employed

TORONTO		MONTREAL		VANCOUVER	
New York	2923	Chicago	4382	Pinehill	700
Boston	2701	New York	2422	Spokane	350
Detroit	2572	Rocky Mount	1595		
Seattle	1932	Columbus	1300	CALGARY	
Cincinnati	1908	Minneapolis	1168	Riverside	1200
Los Angeles	1904	Charlotte	1151	Tampa	564
Huntington	1500	Detroit	1139	San Diego	500
Milwaukee	832	Atlanta	1000		
Buffalo	861	San Francisco	795	FLORENCEVILLE	
Cedar Rapids	725	Rochester	655	Easton	560
Hamilton	665	Nashville	625	Othello	450
Tampa	637	Columbia	555		
Pawtucket	600	Burlington	524	HALIFAX	
Chicago	558	Washington	500	Presque Isle	800
Memphis	543	Boston	428		
Cleveland	540	Baltimore	385	OTTAWA-HULL	
Newark	500	Jacksonville	377	Washington	460
Phoenix	472	Norfolk	350		
Nashville	440			LONDON	
Alto	400	ST CATH-NF		Newark	603
		Dayton	400	Beaufort	575
FARNHAM (PQ)				Flemington	500
Atlanta	1500			Grand Island	400

Note: total number employed by Canadian subsidiaries in the United States in 1990 was 70086.

Source: America's Corporate Families and International Affiliates, Vol II. Dun and Bradstreet Corporation (1990).

controlled in a given American destination by investors in a given Canadian city (during 1990). For all three tables, only linkages that represented at least .5 percent of each respective total were included. Therefore, each CMA parent/SMSA subsidiary spatial connection had to have at least four subsidiaries, $330 million in sales, and/or 350 employed to be included on any one of the three tables.

Whether the linkages are considered from a number of subsidiaries, sales or employment perspective, the most complex spatial patterns emerged for the Toronto case. As was stated earlier, Toronto has been Canada's modern-day primate city in terms of housing parent headquarters and this is further illustrated by the city's many U.S. linkages. In comparison to other Canadian headquarters centres, Toronto-based MNEs have tended to invest more heavily (and more evenly) across America; however, a big-city bias from Toronto-based investors is detectible.

Toronto's largest connection, in terms of investment count was with New York. Linkages to other large centres have also been important, such as with Chicago, Detroit and Los Angeles. Other less significant nodes of Toronto-controlled subsidiary agglomerations are identifiable and tend to be diffused evenly throughout the United States. Yet, a moderate distance decay relationship is revealed when considering sales linkages, as Toronto's strongest sales connections have tended to be with nearer SMSAs. Perhaps this is an indication that distance becomes more of a consideratien for MNEs when making larger investments. The pattern that emerges for employment linkages from Toronto-based MNEs is somewhat similar to that of the subsidiary count, but subtle differences are still detectible.

Like the pattern for Toronto, the Montreal CMA features many U.S. connections. Yet, the directional bias of these linkages tends to be more apparent as investment choices by Montreal-based multinationals have followed a general north-south emphasis. As shown on the tables, there have been comparatively few connections originating out of Montreal that have extended west of Minneapolis; only a few low-level linkages to San

Francisco (for employment) and to Seattle and Phoenix (for subsidiary count) have been made. Overall, except for an obvious Chicago attraction, the vast majority of Montreal's connections have extended along the eastern coast of the U.S. and due south to SMSAs in the Carolinas, Georgia and Florida.

The CMAs in western Canada had few U.S. linkages large enough for inclusion on the tables. Yet, with respect to the direct investments that were made, Canadian FDI that originates out of Vancouver has largely been attracted towards SMSAs along the west coast of the U.S. (especially those located in nearby Washington state) and into the deep south of Texas. Canadian MNEs based in Calgary (and to a lesser degree in Edmonton) have followed a similar investment pattern and those stationed in Winnipeg have clearly favoured the proximate Minneapolis SMSA in investment choice.

Other identifiable Canadian points of control, which have not yet been mentioned, can be found in the Maritimes and again in central Canada. Halifax and the town of Florenceville had short distance linkages with cities in Maine and one long distance connection from Florenceville to Washington state. As well, single FDI connections (with respect to sales) were made from Woodstock to Los Angeles, from Windsor and Hamilton to Detroit, (and regarding employment importance), from Ottawa to the Washington SMSA, from St. Catharines to Tennessee, and from the town of Farnham to Atlanta.

Other than Toronto, the CMA of London was the only other centre in Ontario to have a fairly complex pattern of spatial linkages. For employment connections in particular, Canadian multinationals in London have displayed a pattern of U.S. direct investment that does not appear to be constrained by distance.

The general patterns described by these tables provide a good concluding statement to what was the intent of this chapter: to specifically concentrate on the special case of Canadian direct investment in the United States. Now, with much of the description pertaining to the characteristics of Canadian FDI over space accomplished, the next step is

to account for these results and offer a more detailed explanation for Canadian multinational behaviour.

Chapter 5
Canadian Direct Investment and Place-Specific Attributes

5.1) Study Outline and Statement of Hypotheses

As discussed in chapters 3 and 4, there are place-specific nodes (identifiable both internationally and regionally within the United States) that attract a disproportionately large share of Canadian FDI. Within this chapter, an attempt is made to account for these results. If it can be determined what makes a place attractive to Canadian direct investment, then much is achieved in explaining the location biases exhibited by Canadian multinationals.

Essentially, this is an application of the third and final stage of Dunning's 'Eclectic Theory of International Production' (see Chapter 2) in which a business, having decided upon the direct investment option, considers the particulars of where to invest by evaluating each country's location-specific advantages. Distinctive to this analysis was that the MNEs in question are Canadian and the location preferences of direct investment are from the perspective of not one Canadian investor, but all.

Because of data restrictions, the number of Canadian subsidiaries (NOCS) located at various locations was used as an imperfect surrogate measure of overall FDI place-specific concentration. Often, the incorporated foreign subsidiary is only the first level in the control hierarchy of a MNE's overall foreign presence and as such, by not including various unincorporated divisions, some information regarding Canadian MNE spatial choice is lost. Thus, within the following analysis an attempt was made to uncover the determinants of Canadian subsidiary spatial choice from both an international and regional (within the United States) perspective and should be viewed as a 'rough' initial attempt at estimating the rationale for overall Canadian FDI activity.

Through linear regression, then, various country-wide and U.S.-regional social-economic indicators were tested to determine which are significantly associated with Canadian FDI (as estimated by the dependent

variable - NOCS). A full description of the independent variables used within the analysis is provided in the next section.

As outlined throughout Chapter 2, the generally accepted theories outlining the economic, social and political place-specific conditions necessary for a favourable inward direct investment environment are both well detailed and many in number. Of interest here was to determine how applicable the theoretical determinants of direct investment are to the Canadian situation and thereby ascertain if Canadian multinationals are attracted to a similar set of place-specific conditions as predicted by the theory.

Based on the literature, then, it may be expected that the number of Canadian subsidiaries operating within a given market would be congruent with the following hypotheses.

1) Market. The attractiveness of the market to FDI is measurable in terms of size, wealth, and the prevailing inflation rate. The more favourable are the market conditions of a location, the more direct investment that can be expected.

2) Trade patterns. FDI can be considered either a complement or a substitute for trade, depending on the theory consulted.

3) Exchange rates. If the host country's dollar is devalued in comparison to the home country's dollar, it is cheaper for a MNE to set-up assets in such a country. However, subsequent exports from a location with a less-valued dollar is disadvantageous to the MNE.

4) Labour conditions. A large labour force is attractive to multinationals. But, high wages and strong unions are a deterrent to FDI.

5) Taxing and treatment of multinationals. Corporate tax rates and a country's (or state's) overall receptiveness towards FDI will effect the intensity of investment.

6) The social environment. Areas that are attractive from a more personal standpoint (aesthetically pleasing and affordable cost of living) are likely to encourage inward direct investment.

7) Area specialization and infrastructure. Resource-rich and/or technologically-advanced regions attract FDI.

It should be reiterated that the concern of this analysis was with explaining the reasons behind the location-specific investment decisions of Canadian multinationals (or, why one location is chosen more frequently then another). Therefore, it was not the intent of this analysis to fully

answer why Canadian firms go international with their operations, but to offer some explanation concerning the spatial choice of direct investment.

5.2) The Variable Set and Explanations

In attempting to explain the spatial pattern of outgoing Canadian direct investment, three regression equations were ultimately created to account for Canadian investment (by country, by state and by SMSA). In all cases, the dependent variable was the total number of Canadian subsidiaries and only locations that contained at least one such business entity were included. In forming each equation, the most recently available Canadian subsidiary enumerations were used (1992 by country, 1990 by state and SMSA) and for consistency the independent variables were collected to match such a time-frame.

Many social-economic statistics were collected for the relevant locations and care was taken to form variables that best measured the seven working hypotheses. A summary of the variables tested in each of the three regression models is shown on Table 5.1 and because of unavailability of information or because of inappropriateness, not all variables could be tested in all three equations. Also listed on table 5.1 is each variable's intuitive direction of association with the 'Canadian subsidiary' dependent variable. By looking at these potentially important independent variables in more detail, correspondence with the stated hypotheses will be more apparent.

It is often assumed that FDI is attracted to large and wealthy markets. Market size and strength was measured at each location by gross population estimates, growth rates, and gross domestic (or state) product assessments. Clearly, the larger these estimates, all else being equal, the more FDI that can be expected (hence the assumed positive sign on the correlation coefficient). Market wealth was estimated by per capita income levels and was also partially indicated by GDP/GSP figures as well.

Other market-related characteristics that may have influence on

Table 5.1
Variables Tested in the Three Regression Equations
(with expected direction of correlation)

Independent Variable	Equation 1 World	Equation 2 State	Equation 3 SMSA
Market			
Population	+	+	+
Population Change	+	+	+
Gross Domestic/State P.	+	+	
Inflation Rate	-		
Per Capita Income	+	+	+
Urban/Rural Pop Ratio	+	+	
Trade			
Exports From Canada	+/-	+/-	
Imports To Canada	+/-	+/-	
Commonwealth Country	+		
Exchange Rate (= $1 Can)	+/-		
Labour			
Labour Force	+	+	+
Average Wage		-	-
Union Membership	-	-	
Tax			
Corporate Tax Rate	-		
Withholding Tax Imposed	-		

Table 5.1 (Continued)

Independent Variable	Equation 1 World	Equation 2 State	Equation 3 SMSA
Social Well-Being			
Crime Rate		-	-
Housing Costs		-	-
Infant Mortality	-		
Area Specialization			
Labour in Resources	+	+	
Labour in High Skill	+	+	
Value Added from Manuf.	+	+	
Number of Cases	67	48	97

Note: in all cases, the dependent variable is the number of Canadian subsidiaries.

foreign investors are the urban to rural population ratio (the higher this ratio, the more spatially 'compact' the population is likely to be) and the inflation rate. A location with high inflation was assumed to have a dampening effect on FDI as not only does this suggest market instability, but it makes the cost of doing business increasingly more expensive.

The second hypothesis relates to the relationship between FDI and the volume of bilateral trade between nations or regions and, as theory suggests, the link between trade and FDI can be ambiguous. It is admissible to believe that increased direct investment is a substitute for trade (perhaps due to 'tariff-jumping') and as a foreign market is serviced increasingly more directly, less trade is necessary. In contrast, there is evidence in the literature that trade is both a prerequisite and a continuing reinforcement for FDI; and that well-established trading nations are also likely to show a correspondingly high level of bilateral direct investment activity as well. For the Canadian scenario, it was predicted that trade volumes should be significantly linked with outward FDI levels but that the direction of correlation should remain unsaid and stated in 'exploratory' terms before the regression run.

To further understand the probable connection between Canadian FDI and favoured trading nations, a dummy variable was constructed to denote countries that are members of the Commonwealth of Nations. Since constituent countries are united mainly by historical ties and are therefore linked by defense and trade interests, an effect on FDI levels among member countries is predictable.

The prevailing governmental attitudes towards multinationals, and FDI in general, varies from country to country (and even among states) and will definitely influence the amount of direct investment (Canadian or otherwise) within the domestic economy. It is of course difficult to quantify political attitudes. However, as included herein, subsidiary or branch corporate tax rates do at least hint at a location's general receptiveness towards foreign investment. For example, 'tax haven'

countries such as the Bahamas, Bermuda, the Cayman Islands, the Virgin Islands and Vanuatu are most certainly pursuing a 'pro-foreign capital' policy and despite their small markets would presumably capture a disproportionately large share of direct investment solely on the strength of their zero corporate tax rates.

Another consideration with respect to MNE taxation has to do with an additional tax levied on dividends issued from the subsidiary back to the parent company (commonly known as withholding taxes). Canada has negotiated individual tax treaties with most countries, which has resulted in a more equitable bilateral level of taxation, but the actual withholding tax rate (whether a treaty has been negotiated or not) still varies from country to country (Ernst and Young, 1994). For example, many countries do not impose a withholding tax on Canadian-owned subsidiaries, others (such as Chile, Austria and the United States) tax parent company-bound dividends at a rate in excess of 30 percent. Obviously, both the actual corporate tax rate and the presence of a withholding tax (included as a dummy variable) were expected to be negatively correlated with the dependent variable within this regression procedure.

Exchange rates between countries could intuitively be predicted to influence direct investment levels as well. The exchange rate variable tested within the 'world' regression equation was based on the value of various world currencies vis-a-vis the Canadian dollar but its expected direction of effect with FDI was deemed unclear. Logically, the stronger is the Canadian dollar in comparison to other currencies, the cheaper is the cost of building assets and (if all else is equal) more direct investment can be expected. However, the multinational is in a disadvantaged position if it expects to subsequently export its product from a nation with a devalued dollar. Because of this conflicting situation, the exchange rate variable was included within the regression equation in exploratory terms as a relationship with the dependent variable was suspected but the direction of influence unknown.

The fifth hypothesis relates to the intuitive association of direct

investment with a location's labour conditions. Within this regard, information regarding each locale's labour force size, average wage from employment, and level of union membership was collected and then transformed into variables. From the standpoint of the multinational, it was expected that direct investment would be attracted to markets that feature a large labour force with low wages and minimal union influence.

The sixth hypothesis, referring to place-specific social infrastructure and social well-being qualities that make for a positive business environment, is one that is not easily measurable. Particularly, it is not readily apparent what social well-being or aesthetic factors are important to multinationals (or perhaps more accurately, to key personnel within the organization) and even if this is known, quantifying such concerns is often difficult. Never-the-less, an attempt was made to evaluate these issues by including crime rate and housing cost (measurable by median rent and house values) variables within the two U.S.-based regression runs. At the international level an independent variable consisting of country-wide infant mortality rates, which is a good single indicator of a country's living conditions and level of social services development (The World Bank, 1985), was included. It was expected that areas with a high infant mortality rate, a high crime rate and/or a high cost living would act to dampen direct investment activity.

Finally, the concern addressed in the last hypothesis has to do with the prevailing level of a location's economic infrastructure and/or staple endowment. In efforts to secure sources of supply and to vertically integrate their operations, some multinationals are attracted to regions rich in natural resources. Other locales feature a 'high technology' ambience that may induce a clustering of knowledge-type industry keen on benefiting from economies of agglomeration. Still other regions offer well-developed infrastructure for manufacturing and processing activities and therefore lure direct investment because of this attribute. A location's resource richness was measured by the proportion of employment in primary occupations, high-technology concentration was indicated by

those employed in higher-skilled occupations (business, finance, transportation and communications), and the level of overall economic infrastructure (particularly manufacturing) by a value-added variable. Logically, a location particularly outstanding in any one of these classifications was expected to capture a disproportionate amount of FDI as well.

It should be noted that most of the independent variables listed on Table 5.1 were tested at two periods: once at a period in the 1990s and once also during the mid-1980s. Even though, the dependent variable in all three equations is given by the total number of Canadian subsidiaries operating in a given area as at 1992 (for the 'world' equation) or at 1990 (for the state and SMSA models), it is not immediately clear if it was recent or previous location-specific conditions which are most relevant in predicting modern Canadian investment accumulations. For example, country rankings for GDP do change over time and it is conceivable that the location preferences of Canadian subsidiaries for 1992 may be explained more adequately by country-wide GDP readings for 1985 than by those for 1992. However, it was reasoned that testing independent variables dated before the mid-1980s was unnecessary because if conditions had changed substantially, enough time had elapsed for Canadian multinationals to make investment or dis-investment adjustments.

The sources used to create the independent variables are all publicly available. Most of the variables used to measure country wide statistics were collected, in varying proportions from: The World Fact Book (Central Intelligence Agency, 1993), The World in Figures (The Economist, 1988), the Statistical Yearbook (United Nations, 1993) and the Europa World Yearbook (1993). The majority of information needed to construct the state and SMSA variables came from: Statistical Abstract of the United States (U.S. Department of Commerce, 1993c) and the State and Metropolitan Area Data Book (U.S. Department of Commerce, 1991b). All 'corporate tax' variables were taken from either the Worldwide Corporate Tax Guide and Directory (Ernst and Young, 1994) or from Doing Business in

the United States (Price Waterhouse, 1992f). Finally, the variables relating to trade were adopted from: Exports: Merchandise Trade (Statistics Canada, 1992) and Imports: Merchandise Trade (Statistics Canada, 1991).

5.3) The Linear Regression Procedure: Equations Derived and Explained

The results of the linear regression analysis and the three derived equations are summarized on Table 5.2. Overall, the procedure was successful in isolating some of the key place-specific attributes that are important in attracting Canadian direct investment (as indicated by the NOCS) and as a result many of the conclusions derived through theoretical and empirical FDI studies (as outlined in Chapter 2 and again implicitly stated within the working hypotheses) can be qualified or confirmed specifically for the Canadian case. In addition, by considering the standardized residuals of each equation, characteristics of the typical Canadian MNE can be further substantiated.

However, prior to a detailed discussion of these results, a brief note on the more 'mechanical' aspects of linear regression (such as the variable transformations performed and how well the assumptions were met) will be presented. For a full description of linear regression assumptions, the problems associated with assumption violations, and how to detect and remedy such violations; see Berry (1993), Kleinbaum and Kupper (1978), or any other comparable statistical reference.

In retrospect, the two most critical data transformations that were made while testing the independent variables for causal significance with the NOCS was to re-express the dependent variable in logarithms and to convert most of the independent variables into rates of the population.

The distribution of the dependent variable in its raw form was highly positively skewed. Which is to say that there were many locations that are host to few Canadian subsidiaries, but comparatively few that can be deemed abundantly rich in Canadian direct investment. This skewed

Table 5.2a
Regression Results:
Dependent Variable = Log of Number of Canadian Subsidiaries

Equation #1: World (67 Cases)

R Squared: .59
Significance: .0000
Constant: .2736

Independent Variables (Ranked by Importance):

Variable	Coefficient	Cumul R Squ	Significance
GDP per Capita	44.9017	.3713	.0000
GDP	.0003	.4559	.0107
Commonwealth	.4157	.5117	.0075
Inflation Rate	.0027	.5577	.0100
Exports per Cap.	1.7516	.5855	.0475

Notes:

Highest Correlation Among Independent Variables: .5201 (Between GDP per Capita and Exports per Capita)

Highest Correlation Between Residuals and Independent Variables: .0000

Table 5.2b
Regression Results:
Dependent Variable = Log of Number of Canadian Subsidiaries

Equation #2: States (48 Cases)

R Squared: .71
Significance: .0000
Constant: -.5401

Independent Variables (Ranked by Importance):

Variable	Coefficient	Cumul R Squ	Significance
Gross State Prod.	.0002	.4340	.0287
Imports per Capita	.3425	.4831	.0024
Population Change	.0111	.5381	.0043
Crime Rate	-.0844	.5988	.0000
Average Pay	.0001	.7108	.0002

Notes:

Highest Correlation Among Independent Variables: -.4217 (Between the Crime Rate and Average Pay)

Highest Correlation Between Residuals and Independent Variables: .0000

Table 5.2c
Regression Results:
Dependent Variable = Log of Number of Canadian Subsidiaries

Equation #3: SMSA (97 Cases)

R Squared: .59
Significance: .0000
Constant: -.8952

Independent Variables (Ranked by Importance):

Variable	Coefficient	Cumul R Squ	Significance
Labour Force	.0002	.5157	.0000
Average Pay	.0001	.5665	.0012
Log of Pop Change	.1561	.5903	.0223

Notes:

Highest Correlation Among Independent Variables: .6145 (Between Labour Force and Average Pay)

Highest Correlation Between Residuals and Independent Variables: .0000

frequency distribution of Canadian subsidiaries was the case at all scales of assessment (by world, state and SMSA). By appearance, the distribution of t] dependent variable resembled a Poisson distribution but upon subsequent analysis could not be adequately fitted to one and as a result the possibility of using a Poisson regression procedure was eliminated.

The only remaining option was to continue to work within the confines of linear regression and normalize the dependent variable. This was achieved by a logarithmic transformation and consequent adequacy was confirmed by a Wilk-Shapiro test for normality (such that a normal distribution has a Wilk-Shapiro statistic equal to one and the dependent variable for the world, state and SMSA equations had Wilk-Shapiro values of no less than .97). Thus, all potentially significant independent variables for all three equations were tested in terms of their effect on the 'log (of the number of Canadian subsidiaries)' dependent variable.

In evaluating which set of independent variables to include within the final regression equations, two general guidelines were followed. First, that no set of independent variables excessively violated the standard assumptions of linear regression (of which, more will be said later). Second, that since the main objective of this regression analysis was to uncover potential causal relationships with the dependent variable and not necessarily with prediction, the emphasis was on maximizing the number of significant independent variables (at a confidence level of 95%) in each equation regardless of each variable's contribution to predictive power (as shown by the marginal increases to the coefficient of determination).

To achieve these goals, the independent variables were tested in a variety of forms. All independent variables were transformed by logarithm, natural logarithm, exponent, inverse, square, square root, and rate and later tested within a series of stepwise regression runs. The equations that maximized the number of significant independent variables are summarized in three tables (Tables 5.2a, 5.2b and 5.2c) and as was stated, most of the 'successful' variables were ultimately expressed as

rates of the population. (Essentially, once the bias of location size was eliminated, important variables causally linked to the NOCS began to emerge.) Although predictive power was not a major motivation, the attained R-square values were never-the-less encouraging (as the explained variance in the dependent variables for each of the three equations ranged from 59 to 71 per cent).

Also noteworthy was the satisfactory fulfilment of the regression assumptions. Not only did the transformed dependent variable for the three regression models generally conform to a normal distribution, but so did the pattern of the residuals. The Wilk-Shapiro results were .9721, .9424 and .9674 for the world, state and SMSA equations, respectively. Also with respect to the residuals, none of the significant independent variables, in any of the equations, were correlated with the error terms. As well, the error terms themselves displayed no discernible pattern (which indicates an absence of autocorrelation in the error terms).

The validity of the regression estimates achieved was also enhanced by the result of minimal correlation between the independent variables. As shown on Tables 5.2a, 5.2b and 5.2c, multicollinearity was not a problem in any of the equations. In fact, only in one instance, where the Pearson's correlation coefficient for the labour force and average pay variables within the SMSA model computed to .6145, was even a weak pairwise association detectible.

Although heteroscedasticity (which occurs when the variance of the residuals is not constant) was not specifically tested for, the results attained thus far suggest that excessive violation of the homoscedasticity assumption was not made. As discussed by Berry (1993, pp. 67-78) the presence of heteroscedasticity is most likely if the independent variables are highly correlated with the residuals or among themselves, or if a high degree of measurement error is probable within the dependent variable. Such conditions were not characteristic of these regression results and as a result the potential problem of heteroscedasticity was dismissed.

Therefore, with the assumptions relating to normality,

multicollinearity, homoscedasticity and autocorrelation largely accounted for, a thorough examination of the results attained could be pursued.

One important observation that can be made based on all three equations was that all of the significant independent variables (as derived through the stepwise regression procedure) were representative of conditions in the 1990s rather than in the mid-1980s. Logically, due to high multicollinearity, it was extremely unlikely that a given variable could have been significant for two time-periods within the same equation. But what would not have been surprising was an outcome where some significant variables were from the 1990s and some from the mid-1980s.

Therefore, since the accumulated NOCS was best described by the most recent place-specific conditions, Canadian multinationals must have generally reacted quickly to changes within the prevailing investment climate. Or put another way, there seems to be a small lag-time between changes in a country's (or region's) investment environment and a subsequent increase or decrease in the number of Canada-controlled subsidiaries operating there.

5.3.1) The 'World' Regression Equation

Looking more specifically at each equation, the world regression analysis accrued a maximum of five significant variables in its most successful run. As shown on Table 5.2a, the NOCS was best explained by country-specific market conditions. Gross domestic product per capita (market wealth) and then the total gross domestic product (market activity and size) were the two most important variables as ranked by the stepwise procedure. Another market indicator, the inflation rate, was significantly linked with the number of Canadian subsidiaries but with an unexpected positive direction of effect. Perhaps in this instance, the NOCS are being 'described' rather than 'explained' by a country's inflation rate. As such, markets attractive to Canadian capital, as characterized by favourable GDP levels, may also be prone to high rates of inflation. At any rate, what can be said with some certainty is that there is little evidence to support the hypothesis that high domestic

inflation rates should act to discourage Canadian direct investment activity.

Canadian direct investment levels was also partially explained by the independent variables measuring countries of the Commonwealth and exports per capita from Canada. The emergence of these variables as positive causal components of the world equation lends considerable credence to the theory that FDI is complementary to trade and tends to follow a similar geographic pattern. Also, as Commonwealth nations are not just linked by trade but also by historical ties and certain cultural characteristics (such as English language usage), it is likely that other non-economic unifying forces between countries have influenced the pattern of Canadian direct investment as well.

Thus, based on the world regression equation, Canadian MNEs are most likely to invest in countries that have large markets and are well-established trading partners with Canada.

Further insight into understanding the factors associated with Canadian direct investment abroad can be achieved by considering the equation's residuals (particularly the outliers). Listed on Table 5.3 are the ten most extreme cases highlighting where the world regression model had over- or under-predicted the actual value of the dependent variable. Or in other words, countries listed as outliers were the ones that could be least explained on the basis of market and trade.

For instance, there are roughly ten times more Canadian subsidiaries located in the United Kingdom than what was expected (as indicated by the large positive standardized residual of 2.2679). This implies that there must be some other factor(s) beyond market and trade conditions that could account for the comparatively large number of Canadian subsidiaries operating within Britain. Conversely, a negative standardized residual is representative of a case that was over-predicted by the market and trade independent variables. If it can be intuitively explained why some countries were extreme outliers within the analysis, more information about the dependent variable (and Canadian direct investment) is attained.

Table 5.3
Top Ten Standardized Residuals from the 'World' Regression Equation

Country	Standard. Residual	Actual # of Subsid.	Predicted # of Subsid.
United Kingdom	2.2679	549	53
Chile	1.5392	15	3
Netherlands Ant.	1.4921	28	7
Mexico	1.4594	17	4
Hong Kong	1.4490	58	15
Liberia	1.4405	10	2
Luxembourg	-1.9790	2	16
India	-1.7962	1	7
Finland	-1.6208	2	11
Trinidad and Tobago	-1.4588	2	9

As such, an analysis of the outliers for each regression equation was pursued.

Most of the 'outlying' countries can be discussed in collective terms and can be explained largely by the presence or absence of a permissive approach toward foreign investment. However, the case of the United Kingdom should be viewed more distinctly. A permissive inward investment policy would partly account for this outlier but historical imperial ties to Canada are likely part of the explanation as well.

Portfolio capital flows between Canada and Britain were well established by Confederation (1867) and direct investments (of which most was incoming from Britain and later the United States) became increasingly important after the turn of the century. Over time, the number of countries tied to Canada for bilateral trade and investment purposes grew, but no country has as long or (except for the United States after the mid-1920s) as significant an economic legacy with Canada than Britain. As stated by Marr and Paterson, such a legacy has far-reaching consequences.

> While the character of foreign direct investment, as well as its impact, changed remarkably over history it is well at the onset that we recognize that the phenomenon is old; it has deep historical roots (1980, p. 288).

As a result, the consistently high proportions of Canadian direct investment in the United Kingdom may in part be attributable to an investment inertia that is still influenced by historical economic ties.

Although the Commonwealth of Nations independent variable within the equation would have accounted for some of this 'imperialism-effect', the magnitude of Britain's influence could not be established with a binary (dummy) variable. For, the United Kingdom's impact upon Canada was weighted equivalently to all other Commonwealth nations and, of course, this is not totally representative. It is therefore this inability to truly measure the historical influence of Britain on Canada that has likely contributed to the large standardized residual that resulted for the United Kingdom.

One final point regarding the U.K. residual should be made. The size of the residual (which was well over two standard deviations from the

line of best fit) was sufficiently large enough to warrant concern about the equation's adequacy. Yet, when this residual's effect was held constant (by removing the U.K. case from the model) the difference in R-squared was less than 3 percent. Thus, even though the U.K. residual is quite large, its presence does not greatly alter the model's validity or level of explanation. (Incidently, large outliers for the other two equations were evaluated in a similar fashion and no apparent problems were detectible.)

Any justification for the other countries that have emerged as outliers must include reference to the overall business environment and particularly the country's prevailing receptiveness towards FDI. Common to Chile, the Netherlands Antilles, Mexico, Hong Kong, Liberia and (as well) Britain has been a definite pro-FDI attitude. Consistency among these six countries can be found with respect to the following direct investment considerations (Ernst and Young, 1993a; Ernst and Young, 1993b; Ernst and Young, 1994; Price Waterhouse, 1993a; Price Waterhouse, 1993c; Price Waterhouse, 1993d).

1) Government Attitudes. The policies of government certainly do nothing to discourage foreign investment in these countries. The range in attitude runs from moderate encouragement (Chile) to open enticement of direct investors (the U.K. and Hong Kong).

2) Regulations on FDI. Except for certain 'sensitive' sectors (such as defense), very few activities are exempt from foreign investment.

3) Taxation Policy and Incentives. Corporate tax rates are average to low in these countries and foreign-owned companies are treated, at worst, no differently than domestic corporations. Yet, sometimes, foreign corporations receive incentives not available to national companies (capital grants and 'soft' loans are not unusual).

4) Local Competitors. Foreign investment has typically not been considered a threat to local business in these countries. In fact, for example, many Mexican industrialists prefer joint-ventures with foreign investors to benefit from modern technology.

5) Labour. Because of job-creation possibilities, labour has generally maintained a positive attitude towards foreign investment. For instance, in Hong Kong labour has long recognized that much of the nation's prosperity has been built on foreign capital. As well, the price of labour incurred by multinationals in many sectors of the economy in Mexico and Chile has typically been low.

Of course, this pro-FDI agenda is a position that has not just been limited to these six countries. For instance, 'tax-haven' nations, that attract FDI almost exclusively on the strength of a zero corporate tax rate, have clearly favoured foreign investment as means of economic development. As well, there are many other countries that have maintained a fairly neutral attitude toward foreign investment, but because of large wealthy markets and/or superior infrastructure have become 'natural' targets for foreign capital (with the United States being the best example). Therefore, since the positive outliers were united by a pro-FDI attitude, then it is likely that a country's prevailing attitude concerning direct investment is yet another factor to be consider when explaining the international pattern of Canadian subsidiary location choice.

Further evidence of this point is provided by examining the negative outliers. Despite what was predicted by the regression equation, there is a virtual absence of Canadian subsidiaries in both India and Trinidad and Tobago. This discrepancy is again attributable to the business environment and an attitude towards foreign investment that has historically been quite negative in both countries. Not only have regulations and restrictions on FDI been rather stringent but uncompetitive corporate tax rates in India (50%) and in Trinidad and Tobago (45%) have hampered FDI levels as well. (Based on this study's sample of countries, the average corporate tax rate for 1992 was considerably lower at about 30%). Both nations are, however, recently pursuing a more liberalized approach toward direct investment to attract more foreign capital (Price Waterhouse, 1993b; Price Waterhouse, 1993e). It is possible, then, that Canadian direct investments in India and Trinidad and Tobago could rise in the future.

Luxembourg and Finland were also negative outliers but their emergence as such can not be neatly explained by either nation's stance on foreign investment. Since Luxembourg (landlocked) and Finland (fairly remote) are comparatively less accessible by water than are the positive

outlying countries (all have or are major ports), then perhaps it can be said that geography continues to influence the location decisions of the multinational enterprise even in this age of perceived transportation cost convergence. Beyond this speculation, however, rationalizing what was two of the regression equation's largest under-predictions is difficult.

5.3.2) The State and SMSA Regression Equations

The second regression equation, using state information, revealed explanations for the NOCS that were not drastically different from the world regression run (see Table 5.2b). In that, the three most important variables were those that measured either market conditions (gross state product and population change) or trade intensity (imports per capita from Canada). But, further information was accumulated as the crime rate and average pay variables were also significant.

The results from the SMSA equation (Table 5.2c) emphasized city labour characteristics as the discerning criteria for investment choice. Also emerging as a significant independent variable was population change.

The only variable that emerged inconsistent with the hypotheses, in either equation two or three, was the unexpected positive association between average pay and the dependent variable. Yet, as was the case with the positively correlated inflation rate in equation one, this variable should be interpreted as 'descriptive' rather than truly causal. Such that, one of the typical features of favoured investment locales in the United States is a comparatively high wage rate. High wage regions usually have one or all of the following characteristics: a high proportion of skilled labour, a strong union influence or (especially in large metropolitan areas) a high cost of living.

Overall, it can be said that whether the NOCS is considered from an international or U.S.-destination perspective, market and trade patterns tend to explain this distribution of investment over space most adequately. Based specifically on Canadian investment in the United States, the importance of a large labour force and a secure social environment (as measured by the crime rate) is also apparent.

In hopes of gaining more information concerning Canadian MNE behaviour, the outliers that resulted from the state and SMSA regression equations were considered (as listed on Table 5.4). Unfortunately, though, these extreme state and SMSA residuals can not be justified as easily as were the 'country' outliers. Yet, as will be demonstrated in a more ad hoc assessment of the U.S.-based outliers, some additional observations about Canadian direct investment can at least be implied.

By observing particularly the positive outliers on Table 5.4, it could be stated that distance from the Canadian border still biases investment choice. Given that these equations were built largely on the strength of U.S. market and labour force characteristics, the 'extra' Canadian subsidiaries located in the states of Maine, South Dakota and Washington and as well in the metropolitan centres of Spokane, Seattle, Minneapolis, Milwaukee and Portland are there because of proximity to Canada.

As illustrated in the last chapter, there is evidence of this 'border-hopping' type of FDI. For example, in 1990 much of Seattle- (45%), Portland- (46%), and Spokane-based (89%) direct investment had originated from Vancouver. Also, over one-third of all subsidiaries controlled from Winnipeg had settled in Minneapolis and all but one Canadian subsidiary located in Milwaukee had its ultimate parent company centred in Toronto. Distance also seems to be a factor in explaining east coast outliers where 54% of all Canadian-controlled subsidiaries in the state of Maine had parent firms located in the Maritimes. Finally, Colorado (and particularly Denver) has been a favoured target of Alberta-based multinationals; as over 44% of all Canadian subsidiaries in the Denver SMSA were controlled by investors residing in either Calgary or Edmonton. Although Seattle and Minneapolis are closer in physical distance, it could be argued that because of similarity in attitude and economic specialization the 'social distance' between Denver and Calgary is considerably smaller.

Beyond the likely importance of distance as a consideration that

Table 5.4
Top Ten Standardized Residuals from the State and SMSA Regression Equations

STATE	Standard. Residuals	Actual # of Subsid.	Predicted # of Subsid.
Colorado	1.4478	28	11
South Dakota	1.4223	4	2
Dist. of Columbia	1.3957	2	1
Maine	1.3689	13	5
Washington	1.3295	40	17
Oklahoma	-2.7409	1	6
Kansas	-2.6828	1	6
Mississippi	-2.0567	1	4
California	-1.2847	78	139
Michigan	-1.2388	32	63

SMSA			
Spokane (WA)	2.3862	9	?
Denver-Boulder (CO)	2.3475	27	5
Phoenix (AZ)	2.1220	22	5
Seattle-Tacoma (WA)	1.9001	23	6
Minneapolis (MN)	1.8993	25	6
Milwaukee-Raci (WI)	1.8402	11	3
Portland-Vanc (OR)	1.7552	11	4
New York-N.J.(NYNJ)	-2.0079	104	305
New Haven-Wat (CT)	-1.7870	1	4
Rochester (NY)	-1.6892	1	3

continues to motivate direct investments, some outliers are also justified by differences in state corporate tax rates. Particularly, as shown on Table 5.5, states collecting no corporate tax, such as South Dakota and Washington must certainly attract additional direct investment on that attribute alone. Conversely, the comparatively high corporate tax rate in California (at 9.3% of taxable, not federal, income) would in part explain why this large and wealthy market attracted only 78 out of the predicted 139 direct Canadian investments.

Admittedly, accounting for the outliers through state differentials in corporate tax rates can only be used in isolated cases. Lower than average tax rates in Oklahoma and Mississippi have done little to compensate for their comparatively small markets and the high degree of corporate taxation witnessed in Maine has not dampened direct investment activity there either. As a result, it was reasoned that perhaps it is the absence or presence of other types of state governed business incentives (beyond taxation levels) that could help explain this pattern of extreme residuals. There is, in fact, considerable evidence to support this notion.

As was mentioned earlier, the United States has subscribed to a fairly neutral philosophy with respect to foreign direct investment in which foreign and domestic businesses are treated virtually the same. While the federal government has offered no special tax or industrial incentives to attract foreign investment, this has not been the case with state or local governments.

> State and local governments do not share the federal government's policy of neutrality, and they offer extensive incentives to lure foreign investors. State and local governments believe that foreign investment improves the local economic environment by enlarging the tax base, creating new jobs, and reducing unemployment compensation and welfare costs (Price Waterhouse, 1993f, p. 27).

Therefore, it would be reasonable to expect that any state offering large incentives could increase their share of direct investment beyond what their local market would dictate. Business incentives are most attractive within designated locations termed 'enterprise zones'.

Specifically, enterprise zones are actual areas within a state

Table 5.5
State Tax Rates and Number of Enterprise Zones
(shown for outlier states from equation #2)

Positive Outliers	Corporate Tax Rate	# of Enterprise Zones
Colorado	5-5.4% of taxable income	16
South Dakota	none	0
D. of Columbia	10% of taxable income + 5% surcharge	3
Maine	3.5-8.93% of tax. income + 10% surcharge	4
Washington	none	0
Negative Outliers		
Oklahoma	6% of federal tax	0
Kansas	4.5% of federal tax + 2.25% surcharge	255
Mississippi	3-5% of federal tax	0
California	9.3% of taxable income	29
Michigan	2.4% of federal tax	1

Note: all corporate tax rates and number of enterprise zones are listed as of 1993; these tax rates, however, have generally been in effect for a number of years.

Sources: American Business Climate and Economic Profiles. Priscilla Chang-Geahigan '1994) and Doing Business in the United States. Price Waterhouse (1993).

designed for social-economic development through business growth, residential development and job creation. Essentially, this is a growth-pole/growth centre approach where business is enticed into these (often slow growth) areas by a variety of economic incentives.

> Firms that move to, or expand in, enterprise zones may be eligible for corporate tax credits, property tax abatement, exemption from certain state's sales and use taxes, state grants for the creation of new full time jobs, job training and placement assistance, as well as a variety of added local incentives (Chang-Geahign, 1994, p. 1).

Of course, most states encourage business settlement in many other ways, but it is within these zones where industrial incentives are most generous.

Yet, as shown on Table 5.5, there was no discernible pattern exhibited by the positive and negative outliers with respect to the number of state-wide enterprise zones in operation. For example, except for Colorado, the other positive outlying states had either no enterprise zone program or very few locations designated as such. On the other hand, the state of Kansas had 255 enterprise zones but at the same time had only one Canadian subsidiary within the entire state. Thus, with the effect of market and labour force characteristics accounted for within the equation, there remains little evidence that Canadian direct investment can be enticed into slow-growth regions through generous government incentives.

To recap, within this section an attempt has been made to account for some of the U.S.-based outliers; and many of the outliers were justified. Yet, the emergence of the massive New York-New Jersey SMSA as a negative outlier, the large under-investment in the state of Kansas and the over-emphasis of direct investment in Phoenix were the most notable outliers left unexplained.

5.4) Conclusions and Final Assessment of the Hypotheses

The intent of this chapter was to account for the pattern of Canada-controlled subsidiaries over space. By considering this component of Canadian FDI in aggregate, an opportunity existed to determine what place-

specific attributes were important to Canadian multinationals and thereby compare actual Canadian FDI with the general, theoretical case. The success attained by this analysis can be categorized three ways. First, several important predictors for the NOCS were uncovered (in the form of significant independent variables) by the employed linear regression procedure. Second, other place-specific characteristics that seemed intuitively linked to Canadian direct investment activity were inferred on the strength of the three regression equations' extreme residuals. Third, some place-specific attributes theoretically necessary for FDI could not be confirmed for the Canadian case by this analysis.

5.4.1) Statistically Significant Determinants for the NOCS

With respect to what was statistically established; the number of Canadian subsidiaries operating over space was causally linked with place-specific market, trade, labour and social welfare qualities. Market wealth and economic power, as measured by GDP or gross state product, explained this portion of Canadian direct investment both internationally and within the United States better than any other criteria considered. Also, a growing market (in terms of population increase) was isolated as another critical location attribute for specifically the U.S. case.

The second most important predictor for the NOCS was trade patterns. Clearly, Canadian direct investment internationally should be viewed as following, rather replacing, trade between countries. An identical assessment can be made for the U.S. situation: states trading most with Canada are also most likely to be station to Canadian subsidiaries. Furthermore, the probability of Canadian investment being part of an established trading partner's economy is enhanced if that country belongs to the Commonwealth of Nations.

In choosing U.S.-based locations, the state crime rate was determined to have a negative influence on Canadian direct investment. This suggests that certain non-economic factors (or in this case, negative externalities from agglomeration economies) weigh on investment decisions as well. The effect of labour conditions on the NOCS was most pronounced

at the city level. Yet, since no gross state product-like measure was available for SMSA comparisons, the significance of the labour force variable is likely again reinforcing the importance of city market size, in addition to the attraction of a large labour force, in metropolitan settings.

It was also found that the inflation rate of countries and the high wages within the United States were not powerful deterrents to investment levels. In fact, given that the inflation rate independent variable was positively related to the NOCS, some Canadian MNEs have therefore made sizable investments in foreign markets despite high rates of inflation. Similarly, low wage regions in the United States were not shown to be an attractive force for Canadian multinationals as the cost of employment was also positively related to Canadian direct investment activity.

5.4.2) Inferred Determinants for the NOCS

The regression residuals revealed certain aspects concerning place-specific attributes that either were not or could not be included in any of the actual equations. By justifying the presence of the outliers, it was concluded that imperial ties, a location's business environment, and distance were likely considerations in a Canadian multinational's investment decisions process. For example, it was reasoned that due to a long history of trade and FDI bilateral activity, the United Kingdom represents a 'super' Commonwealth partner from Canada's perspective; and as result, continues to draw Canadian FDI in part through a lingering imperial influence.

Also, the residuals provided evidence that a country's business environment (and particularly the government's attitude towards foreign investment) could either deter or accelerate direct investment levels. India's high corporate tax rate, strict regulatory climate and (until recently) an overall extremely cautious view of inward FDI, has kept the number of Canadian subsidiaries virtually at bay despite a very large domestic market. Hong Kong, portraying the antithesis of the India situation, has attracted much more Canadian investment than would its

market naturally attract largely on the strength of a very open approach to FDI. Several 'outlying' American states, such as Washington and South Dakota, could be explained by this pro-FDI attitude as well.

Finally, some confirmation that geography still influences the location of Canadian subsidiaries was found by analyzing the outliers. This was particularly true of Canadian investment into the United States where locations within many northern states (namely Maine, Wisconsin, Minnesota, South Dakota, Oregon and Washington) had more Canadian subsidiaries than what was predicted by the independent variables. At the international scale, all of the countries that emerged as positive outliers have an already attractive business environment enhanced by a closeness to well-integrated water transport systems.

5.4.3) Undetermined Predictors for the NOCS

Variables tested but deemed insignificant through the many regression runs, or that could not be used to help justify the outliers, can not be immediately dismissed as irrelevant in explaining the pattern of Canadian subsidiary location choice. For, non-significant variable may not necessarily indicate a non-relationship with the dependent variable but that the relationship needs to be measured in different way. Thus, all that can be concluded here is that some of the hypothesized host-specific determinants of Canadian direct investment could not be confirmed by this analysis.

The most notable issues left unaccounted by the linear regression procedure were the variables measuring the urban to rural population ratio, exchange rate, union membership, and withholding taxation; as well as most of the social well-being variables (except the crime rate) and all of the 'area specialization' variables (refer to Table 5.1). Regarding the latter two categories, it is probable that an alternate measurement scheme would prove most useful. Also noteworthy was the inability of this analysis to confirm any linkage between industrial/business incentives and Canadian direct investment levels.

Chapter 6
Conclusions and Implications for Canada

After consulting the many FDI theories and empirical collections (as featured in Chapter 2), it was determined that the body of Canada-specific FDI literature could still benefit from further contributions. So, to append the findings of the many questionnaire-driven surveys of outward Canadian direct investment, this study utilized a comparatively large data set (built, primarily, by agglomerating the relevant portions of three publicly-available sources) and contributed to the literature by: first, providing a more thorough and detailed view of Canadian direct investment abroad and, second, supplying a less-biased and statistically substantiated assessment of Canadian MNE behaviour.

It would likely be useful to succinctly list the major findings of this study and, following that, to briefly address the implications that these findings may have for Canada in general.

6.1) The Characteristics of Canadian Direct Investment Abroad

By considering Canadian FDI in collective-terms, some interesting aggregated patterns and reasons for these patterns emerged. The major findings, based on a time-frame from the mid-1970s to 1992, are as follows.

1) Over time, Canada's level of international involvement has increased. Not only has the number of Canadian firms that have 'gone international' increased but, collectively, Canada's largest multinationals have elevated their foreign to domestic ratio of controlled subsidiaries over time as well.

2) Over space, the United States has been the favoured target for Canada-controlled subsidiaries. Also very important to Canadian direct investors has been the British Isles and the countries of the European Economic Community. Other noteworthy, yet comparatively less vital, host regions have been: the Caribbean and Central America, Australasia and some countries in South America (Brazil especially) and Asia (particularly Hong Kong, Singapore and Japan).

3) Within the United States, Canadian subsidiaries have been most prevalent in the states of (in order) New York, California, Texas, Florida and Colorado. (However, yearly additions to the total stock of Canada-controlled investments has been

highest in Florida, followed by California, New York, Texas and Colorado). By city, Canadian FDI stock has accumulated to its highest levels in New York, Denver, Chicago, Los Angeles, and Houston.

4) Ontario in general and Toronto specifically has always been the most popular headquarters location for Canadian MNEs. Montreal and, more recently, Vancouver and Calgary have also been critical within this regard.

5) By function, the favoured activity of Canada's multinationals (and therefore the most likely classification of their controlled foreign investments) has been in manufacturing. Of secondary importance have been F.I.R.E. and resource activities and somewhat prevalent has been transportation and communication and wholesale and retail endeavours.

6) New investments made in the United States (since the mid-1970s) have displayed a similar functional-bias except that the relative importance of F.I.R.E. has been much greater and emphasis in resources has been considerably reduced.

7) The chosen mode of entry by Canadian direct investors into the United States has been largely through real estate purchases (especially in the late 1970s-early 1980s) and (particularly more recently) acquisitions and mergers. Greenfield investments and joint-ventures have been comparatively less frequent.

8) It was determined that Canadian direct investment (as measured by the number of Canadian subsidiaries) was most attracted to countries (or regions) with favourable market-conditions. Canadian direct investment is also more likely to be prevalent in countries (or states) that are important trading partners with Canada. It was also found that labour conditions and social welfare qualities are important to decisions-makers of Canadian MNEs when choosing a location within the United States.

9) Evidence was found (although not statistically-confirmed) that imperial ties, a country's (or state's) overall attitude towards FDI, and distance from the Canadian parent company were place-specific attributes of likely importance to Canadian foreign investors as well.

6.2) Possible Implications for Canada

The benefits accruing to nations that are home to firms competing directly within various foreign markets have been stated in the literature and are generally homogeneous from country to country. Through the foreign activities of their MNEs the 'home' country benefits from: increased revenues and profits, greater utilization of their people and resources abroad, and an increased availability of new technology (through strategic alliances with other foreign MNEs) (Carnoy, 1993, pp. 64-65).

Such advantages are no doubt applicable to the Canadian case as well.

The potential negative implications of outward direct investment upon Canada have been eluded to throughout this thesis and can be summarized into three general concerns. First, the perceived dangers associated with a so-called over-reliance on resource activities by Canada's multinationals. Second, the continuing 'sacrifice' that is made by Canadians as jobs and economic activity are 'exported' whenever a Canadian multinational establishes a new division in a foreign country. Third, the assumed 'painful' adjustment-phase that will occur as multinationals on either side of the border adopt to the Canada-United Free-Trade Agreement. Yet, the results of this study add further credence to the growing consensus that these concerns are largely unwarranted.

As stated in Chapter 2, it seems to be widely assumed that the majority of Canada's MNEs are resource-based. Porter (1990) has stated that this over-reliance is a danger to the nation's competitive advantage; while Rugman (1985) has claimed that the well-documented success of many of Canada's resource MNEs proves that firm-specific advantage need not only be in high-tech activities.

Regardless of which opinion seems most appropriate, the results of this study suggest that Canada's MNEs are not unduly biased towards the primary sector at all. Most of Canada's MNEs are involved either in manufacturing or financial activities - a combined 54.7%; and although some of this total includes the manufacturing and/or the financial activities of multi-functional resource-companies, it certainly is not indicative of a country over-indulging in staples emphasis. In fact, if the functional profile of Canada's MNEs is a good 'mirror' for Canada's overall industrial mix (as Porter would suggest), than Canada's economy can be said to be quite diversified.

The second issue listed, raised the concern that FDI may deflect too much economic activity away from the home market. And given the amount of economic activity that Canadian MNEs control abroad, there is no doubt that (in aggregated terms) Canada's MNEs are providing enormous economic

opportunities for various foreign locales. In fact, it was demonstrated that for 1992, the top 50 Canadian multinationals provided more jobs and accumulated economic activity (as estimated by foreign sales) than what was created by the top 50 foreign-owned branch-plants here in Canada. Yet, to view this net 'loss' as a negative externality of outward FDI activity is misleading. For, implicit in such a statement is the debatable assumption that in the absence of outward direct investment, Canadian firms would invest more at home.

It was established in Chapter 5 that, unambiguously, the most important place-specific attraction to Canada's multinationals was market. Given, then, that Canada's market-potential for any growth-seeking firm is quite limited, vis-a-vis the international economy, direct investment would seem an inevitable outcome at some point in time for most of Canada's domestic firms. Therefore, an outward investment by a Canadian multinational can indeed make a positive contribution to a foreign country's economy; but because these market-seeking MNEs would not have necessarily made a similar investment in Canada's more limited market, one can not unequivocally view that this is a forgone opportunity for Canada.

The final issue to be discussed relates to the Free-Trade Agreement between Canada and the United States (which has acted to liberalize the bilateral flow of goods, services and, as regulations have become more relaxed, direct investments). Some have expressed concern that once tariffs are removed, so is the advantage of direct investment and the closure of subsidiaries on both sides of the border is inevitable. In contrast, as already reviewed in this thesis, Rugman (1990) has published a generally positive evaluation of the agreement from the point-of-view of the multinationals. He found that most of the decision-makers of many MNEs did not anticipate major organizational restructuring and he predicted that most MNEs will actually benefit from the agreement (with their foreign investments left intact) as inter-firm exports will be less costly.

The basis of his optimism lies in the assumption that trade and

direct investments are complementary. The results of the regression analysis in Chapter 5, where it was established that trade and direct investment levels were positively associated, adds statistical substantiation to Rugman's findings. Yet, it was also noted that the number of Canadian direct investments has increased at a decreasing rate in the United States during the 1990s. Although the North American-wide recession during this period may explain some of this drop-off, it may also be possible that for the Canada-U.S. situation, FDI and trade are (although certainly not substitutes) more aptly described as 'imperfect complements'. As such, this would indicate that some restructuring in the post-free-trade environment can be expected but certainly not to catastrophic levels.

Little (if any) evidence, then, has been found to support the belief that Canada's large fleet of multinationals has adversely affected the nation. Admittedly, though, this would be an area for further, more detailed, analysis. At this point it can be stated that, in very simple terms, the overall outward FDI experience on Canada would seem to have been neutral to slightly-positive in effect.

Appendix 1
Canadian Foreign Direct Investment Abroad: Number of Subsidiaries and Rank
(showing countries with at least 4 Canadian controlled subsidiaries)

Country	1992	R	1989	R	1984	R	1979	1974
USA	2052	1	2003	1	1416	1	830	459
UK	549	2	601	2	560	2	415	194
Australia	118	3	123	3	117	3	86	47
France	99	4	85	5	85	5	49	24
Netherlds	88	5	95	4	92	4	83	22
Brazil	69	6	69	7	54	7	57	29
Barbados	67	7	38	12	10	29	13	5
Germany W	64	8	71	6	76	6	61	43
Hong Kong	58	9	54	10	34	12	19	5
Bermuda	53	10	61	8	47	8	31	12
Switzerld	42	11	55	9	47	8	33	15
Belgium	39	12	33	15	28	15	25	14
Italy	36	13	39	11	33	14	29	20
Ireland	35	14	35	14	40	10	34	4
Cayman Is	30	15	13	23	16	22	10	6
Nether Ant	28	16	37	13	36	11	12	-
Bahamas	25	17	27	16	34	12	51	64
Spain	24	18	19	20	19	19	21	-
Jersey	23	19	10	28	6	34	-	-
New Zeald	22	20	21	18	22	17	11	5
Singapore	22	20	21	18	22	17	-	-
Portugal	20	22	23	11	16	22	4	-
Virgin Is	19	23	4	42	-	-	-	-
Mexico	17	24	16	21	18	20	21	18
Japan	15	25	16	21	10	29	13	8
Chile	14	26	9	31	4	42	-	-

COUNTRY	1992	R	1989	R	1984	R	1979	1974
Is Of Man	14	26	4	42	-	-	-	-
Jamaica	13	28	13	23	20	18	22	22
Malaysia	12	29	12	25	12	24	5	5
Argentina	12	29	11	27	9	32	11	10
Austria	12	29	10	28	12	24	9	-
Venezuela	11	32	7	35	7	33	12	14
Uruguay	11	32	-	-	-	-	-	-
Norway	10	34	10	28	12	24	13	-
Liberia	10	34	8	33	6	34	4	-
P Rico	9	36	7	35	6	34	5	-
Guernsey	8	37	7	35	6	34	-	-
Sweden	8	37	7	35	10	29	14	-
Indonesia	8	37	5	39	5	39	4	-
Panama	7	40	9	31	18	20	16	-
Guatemala	7	40	8	33	11	27	10	-
Denmark	6	42	5	39	11	27	11	-
Zimbabwe	6	42	-	-	6	34	-	-
Domin Rep	5	44	-	-	-	-	4	-
Botswana	5	44	-	-	-	-	-	-
Peru	4	46	-	-	-	-	-	-
Costa Rica	4	46	-	-	4	42	4	-
Honduras	4	46	-	-	-	-	-	-
P N Guinea	4	46	-	-	-	-	-	-
S Africa	-	-	12	25	25	16	30	23
Cyprus	-	-	5	39	-	-	-	-
Trin & Tob	-	-	-	-	5	39	9	7
Kenya	-	-	-	-	5	39	-	-
Nigeria	-	-	-	-	4	42	6	-
India	-	-	-	-	4	42	-	5

COUNTRY	1992	R	1989	R	1984	R	1979	1974
Liechten	-	-	-	-	4	42	5	-
Thailand	-	-	-	-	-	-	9	-
Rhodesia	-	-	-	-	-	-	7	-
Colombia	-	-	-	-	-	-	4	-
Namibia	-	-	-	-	-	-	4	-
RESIDUAL	61	-	68	-	71	-	68	69
TOTAL	3883	-	3791	-	3114	-	2195	1149

Note: the remaining number of countries (noted as 'residual') that were host to three or less Canadian subsidiaries can be broken-down as follows:

- for 1992, 61 subsidiaries in 37 countries,
- for 1989, 68 subsidiaries in 39 countries,
- for 1984, 71 subsidiaries in 45 countries,
- for 1979, 68 subsidiaries in 39 countries, and
- for 1974, 69 subsidiaries in 40 countries.

Source: Who Owns Whom, North America. Dun and Bradstreet International (Volumes 1974, 1979, 1984, 1989, 1992).

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