

Multinational Enterprises
Programme

Working Paper No. 61

Multinational enterprises and employment: The Canadian experience

by M. Bradley Dow and Pradeep Kumar,
Waldie, Brennan and Associates, Toronto,
and School of Industrial Relations,
Queen's University, Kingston, Canada

Note:
Working papers on themes studied within the ILO
are intended to stimulate discussion and
critical comment.

International Labour Office Geneva

Copyright © International Labour Organisation 1990

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorisation, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Publications Branch (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

ISBN 92-2-107512-5

First published 1990

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers. The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them. Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. A catalogue or list of new publications will be sent free of charge from the above address.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
1. HISTORICAL OVERVIEW	3
1.1 Foreign investment in Canada and government policy	3
1.2 The sources of foreign investment	7
1.3 Canadian investment abroad	8
2. A PROFILE OF FOREIGN INVESTMENT IN CANADA	11
Conclusion	16
3. DIRECT EFFECTS OF MNEs ON EMPLOYMENT	18
3.1 MNE employment in manufacturing	19
Firm-specific employment trends	20
3.2 MNE employment and regional development	23
3.3 Impact of MNEs on occupational mix	25
3.4 Employment and productivity in recession and recovery	29
3.5 Forces leading to adjustment	33
3.6 Adjustment by MNEs in Canada	37
Conclusion	40
4. INDIRECT EMPLOYMENT EFFECTS OF MNEs	43
4.1 Indirect effects attributed to foreign MNEs	43
Indirect employment effects of Canadian MNEs	46
4.2 Forces leading to adjustment and indirect employment	46
Conclusion	48
5. OUTLOOK FOR EMPLOYMENT IN MNEs	50
The larger debate	52
BIBLIOGRAPHY	54
ANNEX: ILO PUBLICATIONS ON MULTINATIONALS	57

	<u>Page</u>
<u>List of tables</u>	
1.1 Foreign direct investment in Canada, by country	7
1.2 Canadian direct investment abroad	8
2.1 Proportion of assets held by foreign-owned firms, 1968-86	12
2.2 Comparison of average size of firms in major industrial groups, by type of ownership, 1986	13
2.3 Proportion of total sales made by foreign-owned firms, 1968-86	15
3.1 Percentage change in employment in Canadian and foreign-owned mining and manufacturing firms, 1974-85	20
3.2 Employment in major foreign-owned resource and manufacturing firms	21
3.3 Employment in major Canadian-owned resource and manufacturing firms	22
3.4 Employment in foreign-owned firms in logging, mining and manufacturing, by Canadian province	24
3.5 Number and proportion of production workers in foreign and domestic-owned firms, 1985	26
3.6 Percentage change in production and non-production workers in foreign and domestic-owned firms, 1974-85	27
3.7 Percentage change in number of employees, 1980-82, 1982-85	30
3.8 Percentage change in value-added per employee, 1980-82, 1982-85 ...	32
3.9 Percentage change in value of shipments to value-added ratios in domestic and foreign firms, 1970-80, 1980-85	36
4.1 International sourcing patterns of original parts by major motor-vehicle manufacturers, 1965-88	44

INTRODUCTION

Direct foreign investment has been a major contributor to the development of the Canadian economy since the early part of this century. Multinational enterprises (MNEs), especially those with American parents, have played a strategic role in developing Canada's vast natural resources and manufacturing facilities. However, the dominant position of MNEs has led to an ongoing debate over the relative costs and benefits of this kind of foreign investment and a variety of public policy responses.

The purpose of this study is to analyse:

- the employment effects of MNEs in Canada, particularly the recent trends and patterns in both direct and indirect employment; and
- the strategic responses of MNEs in Canada to global competition, technological change, labour market shifts and trade liberalization through the Free Trade Agreement with the United States.

Chapter 1 of the study outlines the historical context of foreign investment in Canada and the major public policy responses to the inflow of direct foreign investment in the post-World War II period. Chapter 2 presents a sectoral profile of foreign investment, reviewing investment trends of the past two decades. Chapter 3 contains the greater part of this study's analysis, describing the direct impact of foreign investment on employment. Recent trends in aggregate employment, regional distribution and occupational composition are examined, as well as the forces shaping these trends. Chapter 4 examines the indirect impact of MNEs on employment. The study concludes, in Chapter 5, with a discussion of the outlook for employment in MNEs as the Canadian economy enters a period of considerable adjustment.

This study is limited by the lack of data available on employment in enterprises by degree of foreign ownership. Aggregate employment data for domestic and foreign-owned firms is collected by public agencies, but the data cannot be disaggregated by occupation, degree of ownership or firm size. Firm-specific data is available from business publications, but the data is not collected in a consistent or comprehensive manner. It is hoped, however, that despite these limitations the analysis can make a useful contribution to an understanding of the role of MNEs in the Canadian economy.

1. HISTORICAL OVERVIEW

Financial capital from foreign sources has always been an important factor in the development of the Canadian economy. The predominant role of multinational enterprises (MNEs) in Canada has led to a perennial debate over the relative costs and benefits of extensive direct foreign investment, particularly investment from American sources. To place the data and analysis presented in this study in context, it is useful to briefly review the historical trends of foreign investment in Canada and the public policy responses to these trends.

1.1 Foreign investment in Canada and government policy

The first Europeans to explore the northern half of North America were fur traders whose activities were financed initially by French and English mercantilists. After the American Revolution, the building of fortifications, canals and other public infrastructure was supported by direct expenditure of the British Government and through loans from British financiers. These served not only to protect the population from attack but also to facilitate the movement of settlers into the hinterland.

After Canada's federal system of government was created by Confederation in 1867, loans from predominantly British and American sources funded numerous ventures, including the building of a railway linking settlements on the Atlantic, in central Canada and on the Pacific coast. British indirect investment peaked between the turn of the century and the beginning of World War I. In 1940, a government royal commission described the investment boom of that period and explained why foreign capital was both required and available:

The pace of economic development during 1896-1913 was made possible by a huge investment of capital. The expansion took place in the centre of a country of vast distances. It was based on the exploitation of the natural resources of an immense area. These facts, combined with the bulky character of the products and the scarcity of labour, made necessary a large physical equipment. The required capital could have been obtained at home only very slowly. One of the important factors in this rapid growth was the ease with which money could be borrowed abroad. Soon after the turn of the century, Great Britain began to lend overseas in greater volume than ever before and Canada became a favorite field for investment.¹

After World War I, the nature of foreign investment in Canada began to change perceptibly. Prior to the Great War, American manufacturing firms had begun to establish small manufacturing plants to escape the punitive tariffs introduced as part of the federal government's National Policy in 1879, just as public policy-makers had hoped. American direct investment began to grow rapidly during the 1920s, particularly in natural resource-based sectors such as mining and smelting and in pulp and paper. Historian Michael Bliss observes:

As the twentieth century developed, the outsiders were increasingly American (from 13.6 per cent of all foreign investment in Canada in 1900 to 75.5 per cent in 1950, and growing; the British share declined proportionately), and their investments were commonly direct ... By the late 1950s more than 60 per cent of Canada's oil and gas industry was controlled by foreign firms, mostly American, as was more than 50 per

cent of mining and almost 50 per cent of manufacturing. In some of Canada's largest industries, such as automobile manufacture, it was impossible to find a single Canadian-controlled firm.²

The rapid expansion of American ownership in key economic sectors after World War II caused disquiet among some Canadians. In 1957, the Royal Commission on Canada's Economic Prospects, chaired by Walter Gordon, became the first official body to question the presence of foreign, and especially American, multinational enterprises:

There is concern that, as the position of American capital in the dynamic resource and manufacturing sectors becomes ever more dominant, our economy will inevitably become more and more integrated with that of the United States ... Behind this is the fear that continuing integration might lead to economic domination by the United States and eventually to the loss of our political independence.³

The Royal Commission did not appear to be overly concerned about the specific impact of the multinationals on employment. The first of its recommendations with respect to "operations of foreign concerns" in Canada, was that:

[w]herever possible, they should employ Canadians in senior management and technical positions, should retain Canadian engineering and other professional and service personnel and should do their purchasing of supplies, materials and equipment in this country.

The Commission went on to say:

It does not appear that the first of the desired objectives cited above involves much of a problem. By and large, Canadian subsidiaries of foreign concerns do employ Canadians in senior management and technical positions whenever they can find qualified men to fill them ... It is also true that a great many of these concerns do, in fact, purchase their requirements in Canada whenever it is economically possible for them to do so.⁴

The Royal Commission recognized the need for vast sums of capital to develop Canadian natural resources and the benefits of MNEs, including technology and managerial skill transfers. At the same time, it called for tax measures that would encourage the sale of a portion of foreign subsidiaries to Canadians. The Commission also urged Canadian subsidiaries to voluntarily publish separate financial statements and to appoint Canadians to their boards of directors. These recommendations were received by an unsympathetic government, and were not acted upon.

The Commission's deliberations had revealed the dearth of information about domestic and foreign-controlled organizations operating in Canada. In 1962, Parliament passed the Corporations and Labour Unions Returns Act (CALURA). Under CALURA all non-financial corporations are required to provide information concerning the level of foreign ownership as well as the enterprise's assets, equity, profits and revenues. Surprisingly, although labour unions are required to report their Canadian membership under the Act, corporations are not compelled to provide data on their Canadian employment.

In 1963, Walter Gordon, who had chaired the Royal Commission on Canada's Economic Prospects, became the federal minister of finance. His first budget proposed a 30 per cent "take-over" tax on the value of all sales of equity in Canadian businesses to non-residents. Furthermore, in keeping with his Commission's recommendations, Gordon proposed that firms with less than 25 per

cent Canadian ownership would pay higher tax rates on dividends and face slower depreciation rates than other firms.

These budget proposals were never enacted. A few days following its introduction, in the face of much pressure from the financial community, Gordon withdrew virtually all of the measures aimed at encouraging Canadian ownership of industry. However, over the next several years, the federal government ensured that Canadian control over the financial sector would be maintained. Amendments to the acts governing insurance companies, loan and trust companies and banks limited ownership by non-residents to 25 per cent.

In 1968, the federal government's Task Force on the Structure of Canadian Industry was the first of several public bodies to specifically investigate the impact of multinational enterprises in Canada. The Task Force Report (the Watkins Report) noted that, over time, increased savings by Canadians had reduced overall dependence on foreign sources of capital. However, this did not mean that Canada had escaped the "cost" of high levels of foreign ownership. The Task Force concluded that Canada's dependence on exports of raw and semi-finished materials was, in part, the result of the domination of resource and manufacturing sectors by MNEs. The subsidiaries of MNEs, particularly those in manufacturing, were constrained by their parents from seeking foreign markets for their products. Furthermore, these subsidiaries purchased many of their inputs either from their parents or from foreign suppliers selected by their parents. These restrictions, it was argued, lowered potential employment in the Canadian manufacturing sector.

The core recommendation of the Task Force was the creation of a special agency to survey the export and employment performance of foreign-owned firms and the arrangements between Canadian subsidiaries and their parents. The Task Force's other recommendations included:

- the creation of a government-supported venture capital firm, to provide entrepreneurial and management leadership within the Canadian business community;
- an increase in the supply of Canadian equities through the distribution by large corporations, including MNE subsidiaries, of their shares to Canadians.

Two further federal government studies, the 1970 report of the House of Commons Standing Committee on External Affairs and National Defence (the Wahn Report) and Foreign Direct Investment in Canada (the Gray Report), published in 1972, reasserted the basic findings and recommendations of the Task Force on the Structure of Canadian Industry. The Gray Report was the more comprehensive of the two. It advocated a screening agency for all new and expanded direct foreign investment in Canada. The agency would screen proposals and have the power to negotiate for better performance from foreign investors, and to block investment which would not make a net contribution to the Canadian economy. The report also recommended the delineation of "key sectors" where foreign ownership would be strictly regulated.

In 1971, the Canadian Government responded to these calls for action on foreign investment by creating the Canada Development Corporation, a crown corporation with the mandate to "buy back" Canadian assets from MNEs. The Government took a much bolder step in 1973 when it created the Foreign Investment Review Agency (FIRA). As the Gray Report had recommended, the agency had the power to oversee all new foreign direct investment and MNE expansions into "unrelated" fields. Using job creation, technical innovation and export performance as primary criteria, the Agency was to advise the federal Cabinet whether a particular application would bring "significant

benefit" to the Canadian economy. Then, the Cabinet would accept or reject the application.

Concerns over foreign control of Canadian natural resources, particularly petroleum resources, were raised by the "energy crisis" of 1973-74. Two government initiatives significantly influenced trends in foreign investment. In 1975, the federal parliament created Petro-Canada, a crown corporation, to be a leader in frontier petroleum exploration. To generate the revenues required to finance exploration, Petro-Canada bought the Canadian operations of several foreign-owned integrated oil companies.

The second energy-related initiative was the introduction, in 1980, of the National Energy Plan (NEP). This complex array of "policies involving oil prices, taxes, grants, and nationality" provided Canadian-controlled companies more favourable exploration subsidies than their foreign-controlled competitors.⁵ The NEP caused a wave of purchases of the Canadian assets of foreign-controlled oil companies by Canadian interests. In the first nine months of the NEP, Canadian firms paid some \$6.6 billion to foreign MNEs for petroleum industry assets.

In 1984, the election of a large Progressive Conservative majority to the federal parliament foreshadowed a significant shift in federal government policy toward foreign investment. The Conservatives had opposed the restrictions on market forces inherent in the FIRA application process and the National Energy Plan. They believed that government interference of this type discouraged foreign investment and thus limited economic development. In the Conservatives' view, Canada's economic difficulties were not related to ownership. Rather, both foreign and domestic investors were choosing to invest elsewhere, and changes in public policy were required to reverse that trend.

Following their defeat of the "interventionist" Liberals, the Conservative government announced the phasing out of the most discriminatory components of the NEP. In addition, the Foreign Investment Review Agency was replaced by Investment Canada, with a mandate to attract foreign investment to Canada. Foreign investment in new businesses would no longer be subject to regulation. Foreign takeovers of Canadian firms were still subject to review by Investment Canada. However, the reviews were limited to takeovers of firms with assets exceeding \$5 million. Furthermore, rather than having to demonstrate "significant benefits" to Canada, the investor need only demonstrate that a "net benefit".

In late 1985, the federal government embarked on the negotiation of a controversial free trade pact with the United States. In January 1989 the Canada-US Free Trade Agreement (FTA) came into effect.⁶ Under the FTA, all tariffs on trade between the United States and Canada will be eliminated over a ten-year period. Trade disputes will be settled through an arbitrage mechanism. More importantly for this study, the FTA removes many of the remaining non-tariff barriers to the flow of investment, either direct or indirect, between the two countries. Furthermore, it prohibits the creation of regulatory regimes such as the Foreign Investment Review Agency.

Both supporters and critics of the FTA agree that it paves the way for continental rationalization. Proponents welcome the opportunity to make Canadian industry more productive, with greater access to American markets.⁷ Opponents fear a movement of production and jobs out of Canada to underutilized plants in the United States, imposing considerable dislocation costs.⁸

1.2 The sources of foreign investment

Since data were first collected on the flow of direct foreign investment in Canada, residents of the United States have controlled more than three-quarters of the Canadian assets owned by foreigners. Table 1.1 shows the level of direct foreign investment in Canada in selected years since 1926. The American proportion of total direct foreign investment peaked at 86.2 per cent immediately after the Second World War, and has ranged from 75 to 80 per cent since 1975.

Table 1.1 also clearly shows that, since 1970, investment from the United Kingdom has been surpassed by "other countries". Japan has been the major investor in this category. Since the mid-1970s, Japanese companies have made several large "greenfield" investments in Canadian forestry and mining sectors and have also purchased significant shares of existing operations. The construction of "transplants" by Japanese automobile manufacturers Honda and Toyota have been highly publicized, not only because of the size of the investment and employment benefits, but because of the implementation of Japanese technology, production methods and human resource management styles. Although these transplants have received the most attention, Japanese interests have also made investments in other manufacturing industries.

Table 1.1. Foreign direct investment in Canada, by country.
Selected years from 1926 to 1985

Year	United States		United Kingdom		Other countries	
	\$ billion	% of total	\$ billion	% of total	\$ billion	% of total
1926	1.4	78.7	0.3	18.9	0.04	2.4
1939	1.9	81.9	0.4	16.0	0.05	2.1
1945	2.3	84.9	0.4	12.8	0.06	2.3
1950	3.4	86.2	0.5	11.8	0.08	2.0
1955	6.5	84.3	0.9	11.5	0.33	4.2
1960	10.5	82.0	1.5	11.9	0.79	6.1
1965	14.1	81.0	2.0	11.7	1.3	7.3
1970	21.4	81.0	2.5	9.5	2.5	9.5
1975	29.7	79.3	3.6	9.7	4.1	11.0
1980	48.7	78.9	5.3	8.6	7.7	12.5
1981	52.1	78.2	6.0	9.0	8.5	12.8
1982	52.7	76.5	6.4	9.2	9.8	14.2
1983	55.5	75.8	6.9	9.4	10.8	14.8
1984	60.5	76.8	7.1	9.0	11.2	14.2
1985	62.4	76.1	7.5	9.1	12.2	14.9

Source: Statistics Canada, Canada's International Investment Position (Ottawa: Supply and Services Canada), various years.

Japanese and other Asian investors have also invested substantially in Canadian real estate. These purchases have involved office buildings and hotels in major cities, properties at popular resorts and large tracts of undeveloped land in urban centres. Much of this new Asian investment comes from Hong Kong and is thought to be related to the return of the British colony to the control of the People's Republic of China in 1997. Under Canadian immigration laws, people with investments in Canada are more likely

to be granted permission to immigrate than those without. Some of the Hong Kong investment currently coming to Canada is being directed by prospective immigrants, a motivation which is atypical of most direct foreign investment.

1.3 Canadian investment abroad

In recent years, Canadian corporations have been aggressively seeking investment opportunities abroad. This is a conspicuous change from the behavior of Canadian firms in the first 75 years of this century when few held foreign assets.

Table 1.2 shows the trend in Canadian direct investment abroad since 1926. It confirms the acceleration of Canadian investment abroad during the last decade. It increased fivefold between 1975 and 1986 for all countries and by nearly sevenfold in the United States. The United States has always been the most important host country for Canadian foreign investment, and this was especially true in the 1950s and the 1980s. Comparing the figures in tables 1.1 and 1.2 reveals that for every five dollars invested abroad by Canadians in 1980, 12 dollars were invested in Canada by foreigners; by 1985 the ratio was five dollars invested abroad for every nine invested in Canada by foreigners.

Table 1.2. Canadian direct investment abroad, selected years from 1930 to 1985

Year	All countries	United States	
	\$ million	\$ million	% of total
1926	397	250	62.3
1939	671	412	61.4
1945	720	455	63.2
1950	990	721	72.8
1955	1 742	1 293	74.2
1960	2 467	1 618	65.6
1965	3 469	2 041	58.8
1970	6 188	3 262	52.7
1975	10 526	5 559	52.8
1980	25 853	16 781	64.9
1981	33 847	22 356	66.1
1982	35 558	23 781	66.9
1983	37 793	25 516	67.5
1984	44 119	30 752	69.7
1985	50 193	35 521	70.8
1986	53 173	37 836	71.1

Source: See table 1.1.

In the immediate post-World War II period, the few Canadian firms with interests abroad were usually involved in exploiting natural resources, an area in which Canadians had particular expertise. One obvious exception to this general rule was Massey-Ferguson, an agricultural equipment manufacturer. Massey had initially opened manufacturing operations close to major markets in other developed nations such as the United Kingdom, Germany and Australia. By the early sixties, the company was also operating plants in

the Third World. These foreign plants used technologies and assembled products that had been developed in Canada. By 1970, the company had sales of \$1 billion, "distributed remarkably evenly between North America, Europe, and the Third World".⁹

The past 20 years have not been kind to Massey (now called Varsity Corporation). Saved from bankruptcy through government and lender bailouts, the company was forced to abandon many unprofitable plants and product lines, and to merge with one of its competitors. As a result of the bailout agreements and merger, about 70 per cent of the firm is now owned by foreign residents.

This situation is not unusual for Canadian-based MNEs. Massey was always more than 40 per cent foreign-owned and in some years this ratio was greater than 50 per cent. The Aluminium Company of Canada (now called Alcan) and the International Nickel Company (now called Inco) are another two Canadian companies which have invested abroad for many years. As recently as 1988, foreign ownership of Inco and Alcan was 54 per cent and 46 per cent, respectively. Other Canadian-based enterprises with longstanding foreign investments include Seagram Company, 47 per cent foreign-owned in 1988, and Canadian Pacific, 27 per cent foreign-owned.

The telephone equipment manufacturer Northern Telecom could be considered one of the "new breed" of Canadian firms with substantial interests abroad. The company was founded to provide telephone equipment for the various telephone systems across Canada. With limited potential for growth in its domestic market, the company undertook sales efforts in the United States as well as other countries during the mid-1970s. Its products, particularly its telephone switching equipment, were well received. Today Northern Telecom is one of the largest suppliers to the large American telecommunications market. The company has established manufacturing facilities in the United States and in several less developed countries in order to meet increasing international demand.

Since 1973, the growth in Canadian investment abroad has been significant. Between 1973 and 1985, direct Canadian investment in foreign countries grew by 645 per cent and investment in the United States expanded by 750 per cent. In the same period, foreign direct investment in Canada grew by only 181 per cent. Most frequently, Canadian foreign investment aimed at acquiring a controlling interest or significant share of the assets of existing operations. Much public attention has been drawn to the acquisitions by Canadian-based firms which are tightly controlled by a single individual or family group. The publicity surrounding the activities of Canadian-owned real estate developers Campeau Corporation and Olympia & York Development are prime examples.

For some Canadian corporations, foreign investment has become an important means of diversification when there are few opportunities to diversify operations at home. After purchasing a Canadian-based paper company and an integrated oil company, the real estate developers Olympia & York purchased a substantial block of shares in an American railway, as well as undertaking major construction projects in London and New York. During the 1980s, the Canadian-based distillery, Seagrams, bought a large share of Du Pont, an American chemical company, and purchased two beverage companies - one based in France, the other in the United States.

For other firms, the purchase of the assets of foreign competitors has been a means of competing in international markets in an era of globalization. Examples include the purchase of a major American financial institution by the Bank of Montreal, Canada's third largest bank, the

acquisition of the aluminium operations of an American conglomerate by Alcan, Canada's largest aluminium producer, and, in 1987, Northern Telecom's purchase of 28 per cent of STC PLC of Britain.

Notes

¹ Royal Commission on Dominion Provincial Relations, Report: Book 1 (Ottawa: 1940), p. 75.

² Michael Bliss, Northern Enterprise: Five Centuries of Canadian Business (Toronto: McClelland and Stewart, 1987), p. 508.

³ Royal Commission on Canada's Economic Prospects, Final Report (Ottawa: Queen's Printer, 1957), p. 390.

⁴ ibid., p. 393.

⁵ Bliss, Northern Enterprise, p. 541.

⁶ The Canada-US Free Trade Agreement (Ottawa: External Affairs Canada, 1987).

⁷ Prior to the negotiation of the FTA, a strong case for trade liberalization between Canada and the United States was voiced in Canada-United States Free Trade, edited by John Whalley with Roderick Hill (Toronto: University of Toronto Press, 1985). This publication was Volume 11 of the Collected Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission).

The terms of the agreement are summarized in a positive light by Donald Macdonald and Simon Reisman in Murray G. Smith and Frank Stone (eds.), Assessing the Canada-US Free Trade Agreement (Montreal: Institute for Research on Public Policy, 1987), pp. 23-51. More support for the FTA is found in: Richard G. Lipsey and Robert York, Evaluating the Free Trade Deal (Toronto: C.D. Howe Institute, 1988); William G. Watson, "Canada-US free trade: Why now?", Canadian Public Policy, 13 (Sep. 1987), pp. 337-349; and Economic Council of Canada, Venturing Forth: An Assessment of the Canada-US Free Trade Agreement (Ottawa: Supply and Services Canada, 1988).

⁸ Publications critical of the Free Trade Agreement include: Duncan Cameron (ed.), The Free Trade Deal (Toronto: James Lorimer, 1988); Marjorie Montgomery Bowker, On Guard for Thee (Hull, Quebec: Voyageur, 1988); Tim Hazledine, "Canada-US free trade? Not so elementary Watson", Canadian Public Policy, June 1988, pp. 214-221; and Phillippe Deane Gigantes, Is the Free Trade Deal Really for You? (Toronto: Stoddart, 1988).

⁹ Bliss, Northern Enterprise, p. 480.

2. A PROFILE OF FOREIGN INVESTMENT IN CANADA

As the foregoing chapter has demonstrated, much of the debate over the relative costs and benefits of MNE investment in Canada has centred on the concentration of foreign investment, particularly American-controlled investment, in economic sectors vital to Canada's future prosperity and political independence.

Data gathered under the Corporations and Labour Unions Returns Act (CALURA) provide an interesting profile of direct foreign investment in Canada. CALURA requires non-financial corporations to report information on the residency of shareholders. Corporations with more than \$15 million in gross revenue or more than \$10 million of assets in Canada must also provide financial data on assets, sales, profits and equity. Firms with long-term debt or equity owing to non-residents exceeding \$200,000 must report ownership information only. Before they are published, the data from individual corporate returns are aggregated by major industrial group. Firms with more than 50 per cent foreign ownership are categorized as foreign-controlled. All others are considered Canadian-controlled.

The figures in table 2.1 report the percentage of total assets held by foreign-controlled non-financial corporations in 31 industrial groups over the period from 1968 to 1986. The table is based on CALURA data and highlights the steady decline of foreign ownership in most sectors of the Canadian economy.

Table 2.1 shows that 24 industrial sectors experienced notable declines in the level of foreign-owned assets. The largest declines were in resource or primary processing sectors. In metal mining, foreign ownership declined steadily throughout the period. Foreign-owned assets in mineral fuels and petroleum products fell only slightly prior to 1974. However, over the following 12 years, the "Canadianization" of the oil and natural gas industry, which was encouraged by government policy, reduced foreign control by nearly half. In the primary metal sector, a steep decline in the foreign ownership which occurred prior to 1974 was slightly reversed after 1980. The paper and allied sector remained 40 per cent foreign owned prior to 1974 and declined slightly to 35 per cent in 1980. The 1980s have witnessed several large acquisitions of pulp and paper assets by Canadian conglomerates, and foreign ownership fell to less than 25 per cent in 1986.¹

Foreign ownership in other sectors, such as wood products, metal fabricating, construction, textiles and machinery, followed a similar trend; levels increased or remained constant between 1968 and 1974 and then declined over the following 12 years. Even the chemical products and transportation equipment sectors, 81 and 86 per cent owned by foreign investors in 1968, experienced a decline of about ten percentage points.

Only two of the 31 sectors, tobacco products and non-metallic mineral products, saw a significant increase in foreign ownership between 1968 and 1986. In fact, the expansion of foreign ownership in these two sectors occurred before 1974. Foreign ownership in five sectors, food & beverage, rubber & plastic, clothing, furniture & fixtures and communications, changed little over the 1968-86 period. Of these five, only two, the rubber & plastics sector and food & beverage sector, have more than 20 per cent foreign ownership. The food & beverage sector experienced an increase in foreign ownership prior to 1974, a decline between 1974 and 1980 and little change from 1980 to 1986.

Table 2.1. Proportion of assets held by foreign-owned firms, selected years

	1968	1974	1980	1982	1984	1986
	%	%	%	%	%	%
Metal mining	51.7	43.9	31.2	5.7	25.3	17.9
Mineral fuels	81.3	76.0	53.6	38.2	33.8	37.1
All mining	64.6	58.6	45.1	34.6	31.5	31.1
Food & beverage	32.2	44.1	31.3	29.9	30.3	33.9
Tobacco products	84.4	99.8	99.8	99.9	99.8	99.5
Rubber & plastic	93.2	93.3	90.7	91.9	91.3	89.0
Leather	22.8	22.9	23.1	25.8	16.0	14.9
Textiles	52.1	60.6	55.1	50.9	50.7	46.4
Knitting mills	22.6	24.4	14.9	17.4	10.1	12.1
Clothing	15.2	17.3	14.2	13.7	10.6	12.4
Wood	31.1	27.9	18.2	14.9	12.9	15.8
Furniture	18.7	18.3	18.6	17.5	20.0	16.5
Paper & allied	39.8	40.8	35.2	26.5	25.5	23.4
Printing & publishing	14.6	11.7	12.8	13.5	11.4	10.3
Primary metal	55.6	14.9	13.2	14.3	17.7	19.9
Metal fabricating	47.4	42.1	34.5	33.6	28.1	25.1
Machinery industries	71.8	68.1	51.2	48.1	43.7	47.2
Transportation equipment	86.7	78.7	70.6	70.2	73.2	74.6
Electrical products	64.2	65.2	54.4	53.0	49.0	51.9
Non-metallic minerals	54.2	66.8	70.5	73.2	69.8	67.8
Petroleum products	99.6	93.5	69.9	59.9	59.4	52.7
Chemicals	81.5	77.5	77.8	73.3	69.9	71.5
All manufacturing	58.7	55.6	48.0	44.9	44.3	43.8
Construction	14.4	14.2	10.6	10.8	9.4	7.1
Transportation	9.2	12.0	7.3	5.8	4.4	3.8
Storage	12.2	3.8	5.3	4.5	5.5	2.6
Communications	13.5	13.7	13.0	12.7	12.4	11.6
Public utilities	3.4	2.4	0.3	0.4	0.3	0.3
All utilities	7.5	7.7	4.5	4.0	3.4	3.1
Wholesale trade	27.8	29.2	23.8	22.1	23.6	24.2
Retail trade	20.6	21.2	13.1	13.0	13.1	13.3
Services	20.5	26.6	14.4	15.4	15.6	16.1
All non-financial	35.3	33.6	27.4	24.7	23.8	23.6

Source: Statistics Canada, Corporations and Labour Unions Returns Act Report: Part 1 Corporations, various years.

In summary, the percentage of assets in foreign-owned corporations fell in every major industrial group - mining, manufacturing, construction, utilities, wholesale trade, retail trade, and personal services. The declines in mining and manufacturing have been most noteworthy.

None the less, many Canadians feel that, despite a downward trend, the level of foreign ownership in the Canadian economy remains relatively high, exceeding 20 per cent of the non-financial assets covered by the CALURA

survey. It is argued that merely looking at the level of assets in foreign-owned understates the influence which foreign firms exert in Canada.

Table 2.2 compares the average size of foreign and Canadian-owned firms in eight major industrial groups in the Canadian economy in 1986. The table illustrates the very significant differences in the average size of firms by ownership. For example, in mining, foreign firms are, on average, 12 times larger than their Canadian-owned counterparts. In manufacturing, they are 22 times larger; in the retail sector, the average foreign firm has nearly 60 times the assets of Canadian-controlled retailers.

Table 2.2. Comparison of average size of firms in major industrial groups, by type of ownership, 1986

	No. of firms (\$ million)	Total assets (\$ million)	Assets per firm (\$ million)	% of total assets
Mining				
Foreign	402	14 013	34.9	31.1
Canadian	7 639	20 583	2.7	68.9
Manufacturing				
Foreign	1 777	144 636	81.4	43.8
Canadian	41 384	150 337	3.6	55.2
Construction				
Foreign	145	2 753	19.0	7.1
Canadian	62 046	45 216	0.7	2.9
Total utilities				
Foreign	237	4 513	19.0	3.1
Canadian	26 208	81 095	3.1	96.9
Wholesale trade				
Foreign	1 418	40 472	28.5	24.2
Canadian	50 454	124 136	2.5	75.8
Retail trade				
Foreign	206	16 986	82.5	13.2
Canadian	88 541	126 481	1.4	86.8
Services				
Foreign	597	8 949	15.0	16.1
Canadian	128 328	53 473	0.4	83.9
All non-financial				
Foreign	4 862	232 568	47.8	23.6
Canadian	428 442	611 386	1.4	76.4

Source: See table 2.1, 1986.

Another way of comparing foreign and Canadian-owned firms is to link the figures presented in tables 2.1 and 2.2. In mining, 402 foreign-controlled firms account for 31 per cent of the assets, and the remaining 69 per cent of assets are controlled by 7,639 Canadian companies. Similarly, in

manufacturing, 43 per cent of the assets are controlled by 1,777 foreign firms, while 57 per cent are owned by 41,384 Canadian firms.

The continuing importance of these large foreign-owned firms can also be demonstrated by examining their proportion of total sales in each industrial sector shown in table 2.3. In four sectors - food & beverage, tobacco products, textiles and non-metallic mineral products - the proportion of sales by foreign firms increased between 1968 and 1986. Four other sectors experienced little or no change over the period. These include transportation equipment, electrical products, rubber & plastic, and communications. One should note that foreign firms in transportation equipment and electrical products experienced little change in their proportion of sales, while table 2.1 showed that their proportion of foreign asset ownership declined.

In the sectors which show a significant reduction in the proportion of sales by foreign firms, declines are not as large as the declines in assets discussed above. For example, table 2.1 showed assets in foreign manufacturing firms dropping from 58.6 per cent in 1968 to 43.7 per cent in 1986; the comparable figures for sales was 54.7 and 49 per cent. In mining, foreign-owned assets went from 67.4 per cent in 1968 to 31.1 per cent in 1986; sales by foreign firms declined 66.5 per cent to 40.5 per cent over the same period.

While the sales data are more sensitive to cyclical conditions than the asset figures, conclusions can be drawn about the trend regardless of the years chosen. To make the point simply, the proportion of revenues earned in Canada by foreign-owned firms has not diminished to the same degree as the ownership of assets. It appears that, during the period under examination, the foreign-owned firms have become more efficient than their Canadian-owned counterparts. This can be attributed to a process of rationalization that will be discussed in later chapters.

The data in the three above tables reveal several other interesting patterns. First, foreign ownership has never been significant in utilities. The assets of foreign MNEs have fallen from 7.5 per cent in 1968 to 3.1 per cent in 1986. Government has a long history of intervention in this area of economic activity, whether it be through direct government ownership and operation or by regulation. Governments at the federal, provincial and municipal level have created many agencies, some of them quite large, to provide public utilities on a commercial basis. Furthermore, several large Canadian-owned private sector firms have been highly profitable operating public utilities in a highly regulated environment. In 1988, of the 35 largest firms in Canada, ranked by operating revenue, ten were from the utilities group, seven were crown corporations and three were Canadian-owned private sector firms.²

Other sectors with a history of government intervention, such as clothing and furniture, also have relatively low levels of foreign investment. In the past, imports of clothing and furniture have faced high tariffs, designed to protect the domestic market for Canadian producers. The dependence on high tariffs has led many analysts to suggest that these manufacturing sectors will be the most affected by the Canada-US Free Trade Agreement (FTA), despite the fact that the decline in tariffs on clothes and furniture will be gradual.

Table 2.3. Proportion of total sales made by foreign-owned firms, selected years

	1968	1974	1980	1982	1984	1986
	%	%	%	%	%	%
Metal mining	61.7	43.5	39.4	33.7	33.3	29.5
Mineral fuels	86.5	87.8	73.5	58.5	54.9	50.3
All Mining	66.5	64.4	58.2	50.1	47.6	40.5
Food & beverage	26.1	38.9	29.9	27.0	27.4	29.4
Tobacco products	79.7	99.8	99.7	99.8	96.8	98.9
Rubber & plastic	91.3	90.1	89.6	88.5	88.6	88.2
Leather	21.6	22.4	20.6	24.2	12.7	11.9
Textiles	44.3	56.6	55.2	51.0	51.9	50.0
Knitting mills	18.7	19.2	14.2	15.2	8.5	7.1
Clothing	11.3	13.1	12.6	10.9	9.6	9.2
Wood	22.6	22.2	24.0	13.2	12.6	13.6
Furniture	15.3	16.0	16.8	17.4	15.5	12.6
Paper & allied	38.9	41.9	38.2	27.7	26.2	25.9
Printing & publishing	13.2	11.4	12.2	11.8	12.9	9.9
Primary metal	44.0	17.8	15.2	16.6	16.4	17.5
Metal fabricating	45.4	42.7	34.2	33.1	27.9	25.9
Machinery industries	72.6	69.4	57.7	52.3	48.2	50.2
Transportation equipment	90.5	88.7	84.5	84.2	87.9	87.2
Electrical products	62.7	65.0	62.9	62.9	59.6	60.6
Non-metallic minerals	45.6	56.9	59.8	55.9	55.3	52.1
Petroleum products	99.0	96.2	82.1	77.6	71.0	66.7
Chemicals	81.5	82.5	76.4	76.9	75.1	75.8
All manufacturing	54.7	56.8	51.1	49.5	50.3	49.0
Construction	11.3	11.6	8.7	11.1	7.6	5.7
Transportation	11.7	12.3	7.1	6.9	6.1	5.4
Storage	15.3	5.3	2.5	1.2	1.2	1.4
Communications	12.2	12.4	11.9	11.8	11.6	10.9
Public utilities	8.7	4.9	3.1	3.8	3.2	2.7
All utilities	11.1	10.2	6.5	6.2	5.6	5.3
Wholesale trade	27.5	28.7	27.3	26.3	25.4	24.6
Retail trade	18.6	18.7	12.5	12.8	12.2	11.8
Services	16.4	22.7	16.3	16.5	16.2	14.3
All non-financial	35.5	36.7	31.7	29.3	29.6	27.6

Source: See table 2.1.

Third, tables 2.1 and 2.3 include the period immediately following the implementation of the 1965 US-Canada Auto Pact, which eliminated tariffs on trade in automobiles and automotive parts between the two countries. As was noted above, during the 1968-82 period foreign ownership of assets in the transportation equipment sector declined, albeit slowly. This reflects an increased presence of Canadian-based parts manufacturers. The most prominent of these is Magna Corporation, a company which operated eight automotive parts plants in 1969. Over the next 15 years, Magna expanded at an annual rate approaching 30 per cent. By 1988, the company had nearly 100 manufacturing

facilities in Canada and another 20 in the United States, with total sales exceeding \$1.4 billion.³

This overall trend has been slightly reversed since 1982, probably as a result of the large increases in capital spending in Canada by American and Japanese automobile manufacturers. In the four-year period from 1979 to 1982, motor vehicle manufacturers in Canada, all of whom are foreign-owned, averaged \$181 million-worth of capital expenditures per year. In the four years between 1983 and 1986, their average annual capital expenditures expanded to \$832 million. More recently, the MNE's capital expenditures have remained high, reaching \$1.5 billion in 1987 and \$1.9 billion in 1988.⁴ The influences of the Auto Pact are often studied by those seeking some indication of the potential impact of the FTA. According to the CALURA data, the elimination of tariffs on automotive vehicles and parts did not lead to an enlarged foreign presence in the transportation equipment sector.

Finally, it should be noted that the information presented relates to non-financial corporations. Foreign ownership in Canada's financial sector has been restricted since the mid-1960s, particularly within the chartered banking system. Over the past decade, amendments to the Bank Act and the implementation of the FTA have allowed increased activity by foreign-owned banks in Canadian securities, commercial and retail banking sectors. However, majority domestic ownership of large Canadian financial institutions — banks, trust companies, credit unions and insurance companies — has continued. For example, none of the five major chartered banks which dominate the finance industry have any significant foreign ownership. Of the 40 largest financial institutions, ranked by assets, only nine have any noteworthy foreign investment.⁵

Conclusion

The statistics presented show that foreign investment in the Canadian economy declined steadily between 1968 and 1986 in nearly all industrial sectors. The decline was most notable in mining, paper & allied, primary metal, and the machinery industry. In spite of this overall downward trend, foreign ownership remains dominant in several key industrial sectors. In 1986, more than half of the assets in petroleum refining and non-metallic mineral products were owned by foreign MNEs. Chemical products and transportation equipment are more than 70 per cent owned by foreign MNEs.

Thus, while foreign sources of capital have declined in importance in the Canadian economy, firms owned by foreign MNEs continue to play an important role. This is particularly true because the foreign MNEs are large firms; in manufacturing sectors, it is not unusual for the average foreign firm to be 20 times larger than its Canadian-owned counterpart.

The data also demonstrate that sales revenues of foreign firms have not declined to the same degree as their proportion of assets, indicating that the Canadian subsidiaries of MNEs have undergone significant rationalization during the 1968-86 period. This is explored more fully in the following chapter.

Notes

¹ Since 1986, the trend may have been reversed as two major Canadian paper manufacturers were purchased by foreign interests. In 1987, 47 per cent of the shares of British Columbia Forest products were bought by New Zealand's

Fletcher Challenge Ltd. In 1989, US-based Stone Containers purchased controlling interest in Consolidated-Bathurst.

² The Financial Post 500, Toronto, Maclean Hunter Limited, Summer 1989. The seven crown corporations include Ontario Hydro, PetroCanada, Hydro-Quebec, Canadian National Railway, Canadian Wheat Board, Air Canada, and Canada Post. The three private sector utilities were Bell Canada, Canadian Pacific, and TransCanada PipeLines.

³ These details were drawn from Cheryl Carver, Non-Union Grievance Mechanisms: A Case Study of Magna International Inc., Master's of Industrial Relations Research Essay, Queen's University School of Industrial Relations, Kingston, Ontario, Aug. 1989.

⁴ As reported in Industry Science and Technology Canada, Statistical Review of the Canadian Automotive Industry: 1988 (Ottawa: Supply and Services Canada, 1989), p. 28.

⁵ The Financial Post 500, op. cit.

3. DIRECT EFFECTS OF MNEs ON EMPLOYMENT

The evidence presented in the preceding chapter, based on an analysis of assets and sales, indicates that the role of foreign MNEs in the Canadian economy has been declining steadily since 1974. This chapter examines the trends in MNE employment, with particular reference to the manufacturing sector, and some of the forces underlying these trends.

The lack of data limits rigorous analysis of the employment effects of MNEs in Canada. Statistics Canada collects extensive data on employment through monthly household and establishment surveys but these surveys do not gather information concerning the ownership of employers.¹ An annual survey of corporations conducted under the Corporations and Labour Unions Returns Act (CALURA) provides a great deal of financial information on assets, sales, equity, profits and residency of ownership of non-financial enterprises since 1965, but no data on employment.

Recently, Statistics Canada prepared an experimental database from administrative data collected for income tax purposes, beginning in 1978. The database covers all firms with paid employees and includes information on industry, total payroll, country of control, and employment by province.

The database uses a "synthetic measure of employment (average labour units - ALUs)" rather than a direct head-count of employees.² A firm's ALU is calculated by dividing its annual total "payroll by the corresponding industry/province average earnings".³ Thus, it understates the employment of firms which pay below industry/provincial average earnings and overestimates the employment in firms providing above-average earnings. Another weakness is that the current database does not distinguish between changes in employment caused by internal expansion (or contraction) and those employment changes resulting from corporate acquisition (or divestiture). However, the agency has indicated that "future development of the database may allow these components of change to be differentiated", and a first attempt has been made in this direction by Michael Ray in Working Paper No. 62 (published in this same series) which should be read in conjunction with the present paper.⁴

Much of the analysis in this chapter is, therefore, based on data derived from annual Statistics Canada establishment surveys of specific industries. These sources provide aggregate data, for each two-digit industry sector and province, on total and production worker employment in establishments by country of control. Information is also provided on shipments and value-added. While the establishment surveys cover logging operations, historical data to 1970 is available only for mining and manufacturing establishments.

For firm-specific employment, this study uses employment figures published in The Financial Post 500, an annual ranking of Canada's largest non-financial firms. Each year since 1964, The Financial Post has provided readers with a list of firms, their assets, operating revenue, profit, degree of foreign ownership and number of employees. The publication avoids the double counting of employees by excluding subsidiary firms whose accounts are consolidated with those of the parent company. Ranking is made on the basis of annual operating revenue.

In the most recent year, 1988, the firms listed in the "500" were evenly distributed by country of control, including 192 foreign-controlled firms and 208 Canadian corporations. The operating revenues of individual firms in the 1988 listing ranged from more than \$19 billion to \$120 million; the stated

value of their assets varied from less than \$8 million to nearly \$35 billion. Many firms in the "500" have less than 100 employees, the largest in 1988 employed 116,000 workers. The 192 foreign-controlled firms in 1988 list had sales revenues of \$171 billion and assets valued at more than \$114 billion; the 208 Canadian firms had revenues of \$288 billion and assets of \$401 billion.

Despite its breadth and relatively long history, the data reported by The Financial Post have weaknesses. For example, firms can be dropped from the listing because their figures were not made available to the publication in time for inclusion. Furthermore, some firms which are privately owned, either by foreign MNEs or family groups, do not make these financial details available to the publication, nor are they required by law to make these figures public. Despite these problems, the data provide the opportunity to examine firm-specific trends.

3.1 MNE employment in manufacturing

The data derived from Statistics Canada annual survey of mining and manufacturing establishments support the conclusion that the level of Canadian employment in foreign MNEs has been stagnant or declining over the past decade. Table 3.1 shows the percentage change in employment in 20 mining and manufacturing industry groups over the period 1974-85 and the sub-periods 1974-82 and 1982-85.

The table reveals that over the 1974-85 time period, mining employment in foreign-owned companies decreased by 55 per cent while the employment in Canadian-owned mining firms increased by 7.3 per cent. Over the same period, in manufacturing, employment in foreign-owned companies decreased by 19.4 per cent while employment in Canadian firms expanded by 13.2 per cent. On a disaggregated industry level, employment in foreign MNEs declined in all 20 manufacturing sectors, except transportation equipment and knitting mills. Employment losses by foreign MNEs over the 1974-85 period exceed 20 per cent in more than half of the 20 sectors. The declines in MNE employment over 1974-85 contrast sharply with the experience of Canadian-owned manufacturers.

It is interesting to note that the divergence in employment growth rates by country of control occurred as employment in both mining and manufacturing was declining. Mining employment fell from 100,000 in 1974 to less than 77,000 in 1985. Employment in manufacturing declined slightly, from 1.785 million in 1974 to 1.771 million in 1985.

The contrast between domestic and foreign-owned firms is evident in both sub-periods. Between 1974 to 1982, years of recessionary troughs, employment in foreign firms declined in 18 of the 20 manufacturing groups; only petroleum and chemicals deviated from the general trend. Overall, employment in foreign firms fell by 18.1 per cent between 1974 and 1982. Over the same period, domestic firm employment increased by 6.7 per cent overall, with increases in employment in nine industry groups including paper, transportation equipment, printing & publishing, and machinery industries.

Employment in foreign firms was stable during the economic recovery following the 1981-82 recession, largely due to the strong revival of the automotive industry. Excluding the strong 1982-85 employment rebound in the transportation equipment industry, the overall trend in foreign firm employment continued to be strongly downward.⁵ The largest decline in foreign firm employment between 1982 and 1985 occurred in the petroleum sector, reflecting the public policy initiatives to shift control of firms in resource-based industries to Canadian investors.⁶

Table 3.1. Percentage change in employment in Canadian and foreign-owned mining and manufacturing firms, 1974-85

	1974-82		1974-85		1982-85	
	Can.	Foreign	Can.	Foreign	Can.	Foreign
	%	%	%	%	%	%
Mining industries	12.2	-29.8	7.3	-55.0	-4.3	35.9
Food & beverage	24.5	-28.6	22.6	-30.3	-1.6	-2.4
Tobacco products	-27.1	-9.0	-15.0	-26.2	16.7	-18.8
Rubber & plastic	24.8	-7.2	54.3	-4.3	23.6	3.1
Leather	-5.0	-39.8	-3.1	-40.9	2.0	-1.8
Textiles	-15.6	-28.8	-9.5	-39.7	7.2	-15.2
Knitting mills	-24.2	-49.2	3.8	98.7	36.9	291.3
Clothing	-8.6	-18.2	11.7	-6.4	22.3	14.4
Wood	-3.6	-24.8	11.0	-32.6	15.2	-10.4
Furniture & fixtures	-3.1	-11.0	-2.6	-1.5	0.5	10.7
Paper & allied	19.1	-39.5	16.3	-50.1	-2.3	-17.5
Printing & publishing	18.6	-1.8	31.5	-6.2	10.9	-4.5
Primary metal	-2.9	-24.5	-9.6	-24.1	-6.9	0.5
Metal fabricating	-1.2	-22.3	9.4	-43.7	10.7	-27.5
Machinery industries	37.8	-12.0	24.8	-40.6	-9.4	-32.5
Transportation equipment	22.0	-15.1	48.5	13.0	21.7	33.1
Electrical products	-2.8	-18.1	30.1	-11.7	33.8	7.9
Non-metallic minerals	-14.4	-18.5	-3.5	-20.8	12.7	-2.8
Petroleum products	153.7	14.6	373.4	-29.7	86.6	-38.6
Chemicals	45.7	1.9	45.7	-1.3	0.0	-3.1
Miscellaneous manufacturing	5.6	-9.5	14.4	-7.3	8.3	-2.5
Total manufacturing	6.7	-18.1	13.2	-19.4	6.1	-1.6

Source: 1972-80: Statistics Canada, Domestic and Foreign Control of Manufacturing, Mining and Logging Establishments in Canada (Ottawa: Supply and Services), various years. 1982-85: Statistics Canada, unpublished data.

At the same time, employment in domestic firms has grown strongly. Indeed, employment growth in domestic firms three years after the 1982 recession nearly equalled the growth witnessed in the much longer 1974-82 period.

Firm-specific employment trends

One of the weaknesses of using sectoral data of the kind used in table 3.1 is that it does not permit comparisons between firms of similar size. As the discussion in Chapter 2 indicates, Canadian subsidiaries of foreign MNEs are, on average, much larger than domestic-owned firms.

Tables 3.2 and 3.3 compare employment in the 12 largest foreign and domestic-owned resource and manufacturing firms in various years between 1978 and 1988. The foreign-owned firms in table 3.2 are concentrated in transportation equipment, electric equipment, and petroleum refining. The Canadian-owned group, consisting mainly of forest products manufacturers, food and beverage companies and primary metal producers, are found in table 3.3.⁷

The figures in table 3.2 show that total employment in the foreign firms has declined steadily since 1978. Comparing 1978 and 1988, only four of 12 foreign-owned firms experienced increases in employment, led by Total Petroleum where employment grew more than threefold. Employment also grew in General Motors, IBM, and Chrysler. Among the firms with declining employment, the largest drop was experienced by Varsity Corp., the company formed by the merger of Massey-Ferguson and International Harvester, where employment fell by 73 per cent. Employment declined by 33 per cent at both Ford Motor Company and GE Canada and by 11 per cent at Alcan Aluminium. The decline in total employment among these foreign firms over the ten-year period can be accounted for by these four companies.⁸

Table 3.2. Employment in major foreign-owned resource and manufacturing firms

	1978	1981	1985	1988
Alcan Aluminium*	63 000	66 100	70 000	56 000
General Motors	41 000	43 076	48 106	43 571
Ford Motor	40 900	34 200	29 700	27 300
Varsity Corp.*	57 983	39 789	20 262	15 326
Chrysler Canada	14 738	10 600	12 356	15 100
IBM Canada	11 621	11 687	12 373	12 605
Imperial Oil	14 328	16 314	14 674	12 161
GE Canada	18 662	19 987	11 605	10 326
Shell Canada	7 755	8 822	7 142	7 159
CIL Chemical	8 066	6 392	6 263	5 800
Total Petroleum	1 542	1 893	4 500	5 400
Texaco Canada	4 419	4 522	3 711	3 236
Total	284 014	263 382	240 692	213 984
Per cent change		-7.3	-8.6	-11.1

* Denotes world-wide employment figure.

Source: The Financial Post 500, Toronto: Maclean Hunter Limited, various years.

In contrast to the experience of foreign MNEs, employment among the 12 largest domestic firms in table 3.3 grew slowly between 1978 and 1981, declined sharply between 1981 and 1985, and then recovered to near pre-recession levels by 1988. Five of the 12 domestic companies had more employees at the end of the period than they had initially. Between 1981 and 1985, the firm with the most substantial change in employment was Noranda, which reduced its world-wide employment by 34,000, or more than 40 per cent. A large proportion of the increase in total employment between 1985 and 1988 is related to the 1987 takeover of Algoma Steel by Dofasco, one of its larger competitors. Reduced employment in the forest products firms Domtar, Macmillan Bloedel, Abitibi-Price and Consolidated Bathurst is attributable to

the significant capital investment in labour-displacing technology undertaken in the industry over the period 1978-88, and consequent rationalization of the workforce.

Table 3.3. Employment in major Canadian-owned resource and manufacturing firms

	1978	1981	1985	1988
Noranda*	51 300	79 500	45 500	48 000
Moore Corp.	26 748	27 703	27 331	25 943
Dofasco	12 300	13 700	13 600	22 800
John Labatt Ltd.	12 350	10 400	13 000	17 900
Stelco	23 712	26 263	18 773	16 207
Abitibi-Price	20 000	18 000	15 500	16 200
Domtar	17 414	17 409	15 295	16 000
Macmillan Bloedel	23 948	21 772	15 139	15 000
Consolidated Bathurst	18 340	16 704	14 176	14 623
Canada Packers	15 000	14 000	13 600	12 000
IVACO	4 000	7 000	9 000	12 000
Molson Breweries	10 336	13 170	10 900	11 400
Total	235 448	265 621	211 814	228 073
Per cent change		12.8	-20.3	7.7

* Denotes world-wide employment figure.

Note: The above list of Canadian-controlled manufacturing companies excludes two large firms which are utilities that have manufacturing operations. Bell Canada has a manufacturing subsidiary, Northern Telecom, but its main business is providing telephone service to about 60 per cent of Canadian homes and businesses. Canadian Pacific is primarily a transportation company but has interests in resource extraction and processing.

Source: The Financial Post 500, Toronto; Maclean Hunter Limited, various years.

In summary, employment in foreign-owned MNEs operating in virtually all manufacturing industry groups has declined considerably over the past 15 years, particularly in the period prior to and during the 1982-83 recession. Since the recession, the recovery of employment in foreign firms has been uneven. The strong cyclical growth in the transportation equipment sector is the exception; in most industry groups employment has not recovered to 1982 levels.

The employment trend among large firms, shown in tables 3.2 and 3.3, reflects the patterns found in the sectoral data. However, the experiences of the largest Canadian-owned and foreign-owned firms are much more similar than the sectoral data in table 3.1 would suggest. Virtually all of these 24 large firms, regardless of ownership or industrial sector, have taken measures, such as technological innovation or divestiture, that led to reductions in employment. Firms exhibiting substantial gains in employment have done so through corporate mergers and takeovers. In short, the data analysed here does not reveal any differences in the employment effects of large firms that can be primarily attributed to the country of control.

3.2 MNE employment and regional development

The uneven growth of employment between sectors has vital implications for Canada's regions. Regional economies in Canada are more narrowly developed than the economy as a whole, and significant reduction in the employment of foreign-owned firms can have magnified effects in particular regions.

In the post-World War II era, Canadian governments have allocated considerable resources towards reducing the economic disparities between the country's regions. The lack of economic development in some regions - particularly in the Atlantic provinces and some parts of Quebec - compared to the relative prosperity of Ontario, Alberta and British Columbia, has led to many public policy initiatives. For example, "equalization" grants are paid to seven of the ten provincial governments by the federal government. These payments are based on a complicated formula which compares the revenue potential of each provincial government to the average and help governments in the less prosperous regions to provide better public services.

Policies to reduce economic disparities have also included direct government expenditures on regional development. These federal and provincial government expenditures aim to encourage industrial activity, especially manufacturing, in regions with a limited economic base. Development programmes seek to overcome the disadvantages of locating in areas with above-average unemployment by providing loan guarantees, direct grants to firms, serviced industrial lands, and modern transportation infrastructure. Unfortunately, these programmes have not achieved their objective. Economic disparity between regions remains a fundamental antagonism in the Canadian federation.

For this reason, it is important to determine what impact the presence of MNEs has had on regional development, if any. Table 3.4 compares the proportion of employment in mining and manufacturing and the percentage change in foreign-firm employment by province between 1974 and 1985. The table shows that employment in MNEs decreased in all provinces, with the smallest declines in Alberta and Ontario. This means that foreign firm employment was more concentrated in Ontario in 1985 than it was 11 years before. Ontario, which has about 40 per cent of Canada's population and is the most affluent province, accounted for 61 per cent of all foreign firm employment in 1974; by 1985 that had risen to 66 per cent. This can be directly attributed to the rapid expansion of employment in the transportation equipment sector after the 1982 recession as shown in table 3.1.⁹

In both years, Ontario had a higher proportion of foreign firm employment than the national average. Nova Scotia had the next highest proportion of employment in foreign-owned firms; 36 per cent in 1975 and 33 per cent in 1985. It is interesting to note that in 1974 each province had 20 per cent or more of mining and manufacturing employment accounted for by foreign firms; by 1985, three provinces had less than 15 per cent of employment in foreign firms. In 1974, seven provinces had more than 30 per cent of employment in foreign firms; in 1985 there were only two.

The reasons for the significant declines in foreign-firm employment vary from province to province. In Newfoundland, the closures of foreign-owned mines were particularly important. In British Columbia, New Brunswick and Quebec, where the wood and paper sectors are of vital importance, many plants changed hands from foreign to domestic control, and modernization programmes reduced employment in these industries. Alberta's relatively stable employment levels can be attributed to the extensive direct foreign investment in petroleum and forestry products in the 1974-85 period.

Table 3.4. Employment in foreign-owned firms in logging, mining and manufacturing, by Canadian province, 1974 and 1985

	Number of employees (in thousands)		Change 1974-85
	1974	1985	
	%	%	%
Newfoundland	4.8 (34)	1.4 (9)	-71
Prince Edward Island	n.a.	0.2 (5)	
Nova Scotia	13.3 (36)	11.6 (33)	-13
New Brunswick	7.6 (25)	3.4 (12)	-55
Quebec	183.9 (33)	124.9 (25)	-32
Ontario	468.4 (53)	411.8 (45)	-12
Manitoba	16.4 (30)	12.1 (23)	-26
Saskatchewan	3.6 (20)	2.5 (13)	-32
Alberta	21.1 (35)	19.9 (27)	-5
British Columbia	50.3 (34)	33.3 (25)	-34
Canada	769.9 (43)	621.0 (35)	-19

Note: Numbers in brackets are the proportion of provincial employment in logging, mining and manufacturing accounted for by foreign firms.

Source: See table 3.1

The analysis suggests that the pattern of MNE investment has not contributed to more equitable regional economic development. For public policy-makers the implications of this trend are disturbing; even in the face of considerable outlays of public funds to encourage more development in disadvantaged regions, employment in foreign-owned firms has become more concentrated in the wealthiest province.

This is not to say that foreign-owned firms are being conspiratorial in their avoidance of economically depressed regions. Rather, the large firms that make up the foreign-owned sector in manufacturing have chosen to build their plants in close proximity to their suppliers and product markets, just as their domestically-owned counterparts do. Investment in the hinterland is normally for the purpose of exploiting a resource unavailable elsewhere. These economic considerations result in the clustering indicated by table 3.3 and few publicly funded incentives can surmount them. Opponents of government intervention in the economy point to the many costly and unsuccessful attempts to lure investors, foreigners included, to open new industries in economically depressed areas.¹⁰ Where foreign investment has led to a successful diversification of a local economy, there is frequently a question of whether the price for that investment - in economic, environmental or social terms - has been too high.

There are reasons for such scepticism. For example, with government encouragement the French-owned tire manufacturer, Michelin, built a plant in Nova Scotia to supply eastern North American markets. The plant's rural setting helped the firm maintain a union-free workplace despite several organising campaigns by trade unionists. During the 1970s, the company expanded, again with government assistance, constructing a second plant in a

part of the province with a strong organized labour tradition. Shortly after the second plant began operation, an attempt was made to unionize its workforce. The government responded by including provisions in the province's labour legislation which applied, in effect, only to Michelin. The provisions required that a majority of workers in both plants must approve union representation before either plant could engage in collective bargaining. The "Michelin Bill", as the amendments became known, has thwarted many attempts by the labour movement to organize either of the Michelin plants.

3.3 Impact of MNEs on occupational mix

When studying the employment impact of any form of investment, it is not sufficient to determine the numbers of jobs being created. One must also examine the types of jobs being created. The occupational mix of employment in any enterprise is a prime determinant of the wages paid and other conditions of work. To some degree, the occupational mix also indicates the degree of independence which any single operation has from the MNE system to which it belongs. Canadian scholars have expended considerable effort to determine the impact of high levels of foreign investment on the structure of employment in the Canadian economy. This section reviews some of this sizeable body of work.

Foreign subsidiaries operating in Canada offer a broad mix of employment opportunities. Their structures often make them "miniatures" of their parents, producing the same products and using similar technologies as their parents do in their home country. As a result, their occupational structures resemble those of the parents; production, administrative and management workers range from the unskilled to the highly educated.

Foreign-owned enterprises provide a higher proportion of non-production jobs in manufacturing than their Canadian-owned counterparts. Table 3.5 shows the proportion of total employees of foreign and domestic-owned manufacturing firms who were classified as "production workers" in 1985. Overall, more than three-quarters of employees of domestic firms were production workers compared to two-thirds in the subsidiaries of MNEs. In some sectors of manufacturing, such as chemicals, petroleum products and machinery, the differences between foreign and domestic firms were significant. This is probably attributable to the bureaucracies which manage the production and sale of domestically produced and imported products in large foreign-owned firms. In sectors where the average size of foreign and domestic firms are most similar, such as paper and primary metal, the ratios of production workers to total employment are virtually identical.

Table 3.6 illustrates the percentage change in employment of production and non-production workers between 1974 and 1985. Employment trends since 1974 have generally reinforced the higher proportion of non-production jobs in subsidiaries of foreign MNEs. Production employment in foreign firms declined significantly more than non-production employment, while in domestic firms production employment grew at twice the rate of non-production employment. This indicates that the foreign MNEs were becoming more capital-intensive over the 11-year period.

Table 3.5. Number and proportion of production workers in foreign and domestic-owned firms, 1985

	Number of production workers ('000s)			
	Foreign		Domestic	
		%		%
Mining industries	22.4	(74.7)	54.4	(76.5)
Food & beverage	61.4	(59.8)	162.8	(71.2)
Tobacco products	7.0	(58.8)	0.1	(63.7)
Rubber & plastic	32.7	(71.2)	30.9	(83.0)
Leather	3.8	(83.5)	19.3	(86.6)
Textiles	20.9	(34.4)	37.1	(33.4)
Knitting mills	9.9	(71.5)	21.3	(84.7)
Clothing	12.3	(74.0)	98.9	(90.7)
Wood	15.4	(83.5)	93.0	(84.0)
Furniture & fixtures	8.5	(77.4)	41.7	(86.3)
Paper & allied	28.9	(73.9)	85.3	(76.3)
Printing & publishing	9.2	(46.2)	108.7	(64.5)
Primary metal	19.2	(73.3)	87.6	(76.4)
Metal fabricating	29.7	(67.3)	110.5	(83.6)
Machinery industries	33.1	(61.8)	41.7	(78.7)
Transportation equipment	141.1	(77.2)	70.1	(77.5)
Electrical products	76.3	(61.1)	60.9	(68.3)
Non-metallic minerals	22.1	(70.4)	28.7	(81.0)
Petroleum products	11.5	(32.0)	5.3	(52.6)
Chemical products	60.9	(47.8)	26.4	(65.0)
All manufacturing	620.7	(66.1)	1 150.4	(77.8)

Note: Numbers in brackets are production workers as a percentage of total employment.

Source: See table 3.1.

Table 3.6. Percentage change in production and non-production workers in foreign and domestic-owned firms, 1974-85

	Foreign		Domestic	
	Prod.	Non-prod.	Prod.	Non-prod.
	%	%	%	%
Food & beverage	-33.3	-25.4	30.1	7.3
Tobacco products	-40.0	10.2	-31.8	50.0
Rubber & plastic	-0.6	-12.4	57.3	41.0
Leather	-40.9	-40.5	-3.8	1.3
Textiles	-72.9	69.7	-62.1	196.5
Knitting mills	71.4	230.7	-1.2	43.8
Clothing	-16.9	46.0	13.5	-3.2
Wood	-34.1	-24.0	12.0	6.2
Furniture & fixtures	-1.1	-2.9	0.0	-16.2
Paper & allied	-51.0	-47.4	16.1	17.2
Printing & publishing	-8.6	-4.0	45.8	11.6
Primary metal	-28.2	-10.1	-10.7	-5.8
Metal fabricating	-47.4	-34.2	16.1	-15.2
Machinery industries	-40.5	-40.8	29.5	10.0
Transportation equipment	18.2	-1.5	41.8	77.1
Electrical products	-15.5	-5.0	25.6	41.3
Non-metallic minerals	-22.2	-17.2	1.4	-20.1
Petroleum products	-47.9	-15.9	271.1	581.4
Chemicals	-2.3	-0.4	54.4	31.8
All manufacturing	-21.5	-15.0	15.0	7.5

Source: See table 3.1.

There is concern that some of the foreign subsidiaries operating in Canada are "truncated firms". According to Foreign Direct Investment in Canada (the Gray Report):

A truncated firm is one which does not carry out all the functions - from the original research required through to all the aspects of marketing - necessary for developing, producing, and marketing its goods. One or more of these functions are carried out by the foreign parent of the Canadian firms ... Depending on which activities are involved, truncation may mean less production for the Canadian market, less opportunity for innovation and entrepreneurship, fewer export sales, fewer supporting services, less training of Canadian personnel in various skills, less specialized product development at Canadian needs or tastes, and less spillover economic activity and so on.¹¹

The authors of the Gray Report blamed this "truncation" for the general uncompetitiveness of Canadian manufacturing in international markets. Other observers have related the concept of truncation to the low level of research

and development (R&D) undertaken in Canada, particularly in medium and high-technology industries. Perhaps the best-known study of this type was published by the Science Council of Canada. The study suggested:

Technology imports occur without any real Canadian choice once foreign ownership of plants is accepted, thus reducing job opportunities in Canada - especially jobs concerned with developing or using high levels of skills - and stunting the growth of innovation, the most important factor input to the modern developed (industrial) economy.

Canada's low level of technological achievement is one of many direct consequences of foreign ownership. By permitting foreign control over industries in which innovative capability is fundamental for international survival and growth, Canada suffers the consequences of foreign multinational firms attempting, and generally succeeding, in their aim of centralising managerial high-level technical and scientific jobs in the country of corporate control.¹²

This view is not universally shared. Critics of the Science Council study argue that its comparisons of R&D activities in Canada and those in other developed countries had failed to account for differences in industrial structure, importance of defence-related research, size of the domestic market, and the ability to gain access to R&D undertaken elsewhere. The Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission), in examining the question of Canada's poor R&D effort, recognized that "Canadian-owned firms tend to spend a higher proportion on R&D in relation to sales than do foreign-owned firms".¹³ However, the Royal Commission disagreed strongly with the Science Council's conclusions.

In fact ... little evidence links extensive foreign control and deficiencies in Canada's industrial performance. For example, while domestically controlled manufacturing firms may spend more on research and development than their foreign-controlled counterparts, the latter tend to have higher productivity ... Thus there may be more logical explanations for Canada's truncated industrial structure than foreign ownership. The National Policy of 1879 and the continuing use of protection since then, the relatively small size of the domestic market, and the tariff and non-tariff barriers created by our major trading partners have all contributed significantly to our current industrial problems. Moreover, both foreign and domestic investors appear to have responded in similar ways to the conditions and circumstances prevailing at home and abroad.¹⁴

A recent study prepared for the Economic Council of Canada studied several aspects of trade liberalization and MNEs, including the international distribution of R&D within US multinationals. Previous research had established that the proportion of R&D functions carried out by subsidiaries outside the US rises as "the minimum efficient scale of an R&D operation decreases and as the incidence of country-specific research requirements increase. The merits of centralising the research function clearly depend on the type of research involved, basic versus applied, product versus process".¹⁵

Using data from 1977 and 1982, the study revealed that "Canadian affiliates [of US multinationals] tend to be less R&D-intensive than the weighted average of their European counterparts". The largest difference was in sectors such as electrical and electronic equipment and transportation equipment. Interestingly, the study points out that, despite the overall centralization of employment from affiliates to US-based parents between 1977 and 1984, the changes in the R&D employment in Canadian affiliates was

"roughly proportional to those experienced in the United States and Europe".¹⁶

The notion that MNEs tend to centralize R&D functions in their home country has also been contradicted by the actions of Canadian-owned MNEs. For example, in 1989 Northern Telecom, a manufacturing subsidiary of the communications conglomerate Bell Canada Enterprises, announced the relocation of a substantial portion of its R&D activities to the southern United States. Company spokespersons said the move would make it easier to recruit the necessary personnel and improve their ties with the US communications industry and research community.

The debate on the impact of foreign direct investment on the skill mix of employment is far from settled. Evidence shows that foreign firms have a higher proportion of non-production workers, and are more capital-intensive, than Canadian firms in the same industries. At the same time, most analysts agree that Canada has a lower level of industrial R&D than many competitors. One can point to numerous factors, aside from high levels of foreign investment, which could result in such a shortcoming. Furthermore, the reduced R&D intensity does not mean that Canada has limited access to modern technology. As the Royal Commission noted, "One of the benefits of foreign investment is the access it brings to the most recent technological developments".¹⁷

3.4 Employment and productivity in recession and recovery

In section 3.1, the trends of manufacturing employment within foreign and domestic firms are discussed. Foreign firms experienced a general decline in employment, especially before the 1982 recession, as the result of considerable rationalization of employment or through the sale of foreign-owned operations to Canadian purchasers. The opposite was true of domestic firms; employment grew, albeit slowly, in most sectors between 1974 and 1982, and expanded rapidly during the 1983-85 recovery.

This section will more closely examine employment in foreign and domestic firms during the recession and recovery of the 1980s. There are several reasons why a fuller understanding of this unique period is a useful indicator of the future directions of foreign direct investment in Canada. First, the recession was 18 months in duration and resulted in a 6.5 per cent loss of real output, making it the longest and deepest economic downturn experienced in Canada since the 1930s. Just as the Great Depression signalled the end of one epoch and the beginning of another, the recession of the 1980s may be considered in the same light. Second, the recovery, now extending into the 1990s, is the longest since the end of World War II. Third, the recovery has been peculiarly uneven; this unevenness can be attributed to the significant structural change which has taken place over the same period. A comparison of the employment and productivity changes in foreign and domestic firms should reveal whether foreign MNEs are acting in a manner different from their Canadian-owned counterparts.

Table 3.7 shows the changes in employment of domestic and foreign-owned firms in manufacturing and mining for the periods 1980-82 and 1982-85; the 1980-82 period coincides with the recessionary period, and the period 1982-85 includes more than three years of recovery. The table indicates that employment fell in most sectors during the recessionary period and that, in general, employment in domestic firms was more stable in the years prior to and during the recession.

Table 3.7. Percentage change in number of employees, 1980-82, 1982-85

	1980-82		1982-85	
	Canada	Foreign	Canada	Foreign
	%	%	%	%
Mining industries	2.9	-20.0	-4.3	-35.9
Food & beverage	-0.8	-6.8	-1.6	-27.4
Tobacco products	-1.3	2.3	16.7	-18.8
Rubber & plastic	-3.9	-10.4	23.6	3.1
Leather	-8.8	-5.1	2.0	-1.8
Textiles	0.6	-27.2	-54.5	-55.3
Knitting Mills	-16.8	1.8	36.9	291.3
Clothing	-3.6	-11.8	22.3	14.4
Wood	-16.3	-17.5	15.2	-10.4
Furniture & fixtures	-7.0	20.5	0.5	10.7
Paper & allied	6.0	-27.0	-2.3	-17.5
Printing & publishing	1.7	-10.3	10.9	-4.5
Primary metal	-16.9	23.6	-6.9	0.5
Metal fabricating	-9.9	-18.8	10.7	-27.5
Machinery industries	-12.1	-12.5	-9.4	-32.5
Transportation equipment	-8.0	-8.8	21.7	33.1
Electrical products	-4.6	-5.5	33.8	7.9
Non-metallic minerals	-9.8	-18.2	12.7	-2.8
Petroleum products	4.0	7.7	86.6	-38.6
Chemicals	8.3	-0.6	0.0	-3.1
Miscellaneous manufacturing	-23.0	51.3	8.3	2.5
Total manufacturing	-6.0	-9.6	6.1	-1.6

Source: See table 3.1.

In industrial groups such as mining, printing & publishing and paper, employment in foreign firms decreased significantly while employment in domestic firms increased slightly during the recessionary period. In other industrial groups, such as non-metallic mineral products, electrical products, rubber & plastic, and metal fabricating, employment did not decline to the same extent in domestic firms as it did in foreign firms. The industries that run counter to the general trend - where foreign firm employment fared as well or better than that of domestic firms - include transportation equipment and primary metals.

The employment growth during the economic recovery was more rapid in domestic firms than in their foreign counterparts. Employment figures for clothing, wood, printing & publishing, machinery and electrical products all reflect this dominant trend. The trends in other important sectors are less uniform. The paper industry, with the encouragement of joint federal and provincial government assistance, undertook a considerable number of capital modernization projects after 1981. The labour-saving nature of these

investments clearly had an employment impact in both foreign and domestic firms in the sector. Similar small declines are seen in the mining and food & beverage industries. Finally, during the recovery period, large declines are apparent in the metal fabricating and machinery industries.

In table 3.7 figures for the petroleum products industry diverge sharply from the overall pattern. This sector was affected profoundly by the introduction of the National Energy Plan in 1980. The "Canadianization" of the petroleum industry led to the transfer of foreign-owned refineries, and their employees, to Canadian enterprises.

Table 3.8 provides another view of mining and manufacturing industries during recession and recovery, showing the percentage change in nominal value-added per employee in domestic and foreign firms. Nominal value-added rises (falls) as a result of increases (decreases) in the quantity or prices of goods produced. Value-added per employee is an indicator of productivity and is expected to rise less quickly, or perhaps decline, as economic growth slows; in other words, firms normally reduce output by a greater proportion than they reduce employment.

The figures suggest that, during the recessionary period, value-added per employee rose at about the same rate for foreign and domestic manufacturing firms, especially in sectors with large workforces. Despite some year-to-year variations, domestic and foreign firms experienced similar changes in value per employee in food & beverage, electrical products and metal fabricating. Value-added per employee in transportation equipment, textiles, publishing and electrical products rose much more quickly in foreign firms than in domestic ones. On the other hand, domestic firms in machinery industries and clothing improved their productivity relative to their foreign-owned counterparts.¹⁸

The figures for changes in value-added in the paper industry over the two periods require a word of explanation. Domestic firms in the industry were severely affected by a lengthy labour dispute in eastern Canada during the spring of 1982. This means that the reduction in value-added between 1980 and 1982 are greatly overstated, as is the increase between 1982 and 1985.

The higher gains in value-added per employee by foreign firms during the recovery phase are readily apparent. In a few industries, mining and wood being the most important, domestic firms out-gained their foreign counterparts. However, in other sectors, most notably transportation equipment, electrical products, machinery and food & beverage, increases in value-added per employee were considerably higher in foreign-owned firms. In all manufacturing industries, value per employee rose by 42.1 per cent in foreign firms from 1982 to 1985, compared to 28.6 per cent in domestic firms.¹⁹

The trends outlined in tables 3.7 and 3.8 can be summarized as follows: compared to foreign MNEs, employment in domestic firms did not fall as much during the 1981-82 recession and recovered more quickly between 1982 and 1985. Over the same period, the value-added per employee of foreign manufacturing firms rose more rapidly. Unfortunately more recent data is not yet available to see whether such trends have continued.

Table 3.8. Percentage change in value-added per employee, 1980-82, 1982-85

	1980-82		1982-85	
	Canada	Foreign	Canada	Foreign
	%	%	%	%
Mining industries	-34.0	-19.9	58.7	43.6
Food & beverage	25.3	29.0	23.5	32.6
Tobacco products	102.6	26.7	28.6	39.5
Rubber & plastic	19.8	14.0	30.6	40.5
Leather	13.7	7.6	19.7	21.8
Textiles	-5.6	39.9	195.1	164.5
Knitting mills	13.9	14.9	39.8	110.2
Clothing	15.6	-9.3	13.1	32.9
Wood	-4.3	-14.2	51.8	84.6
Furniture and fixtures	10.0	9.2	36.1	33.7
Paper & allied	-56.1	109.7	188.4	-35.4
Printing & publishing	19.0	25.6	30.4	46.8
Primary metal	4.0	-36.9	46.5	97.5
Metal fabricating	15.9	16.6	26.1	20.6
Machinery industries	19.8	5.6	16.1	26.1
Transportation equipment	8.2	26.3	34.1	53.5
Electrical products	25.0	20.6	11.6	37.1
Non-metallic mineral products	23.8	14.2	26.9	40.2
Petroleum products	37.9	7.9	15.5	33.9
Chemical & chemical products	24.3	5.4	30.3	47.4
Miscellaneous manufacturing	45.6	-27.4	23.5	20.1
Total manufacturing	13.8	13.8	28.6	42.1

Source: See table 3.1.

These trends suggest differences in the strategic responses of foreign and domestic firms during the first half of the 1980s. Foreign firms appear to have been more inclined to reducing their workforces permanently, by closing plants, introducing labour-saving technology and selling segments of their operations. In general, this type of rationalization is not as evident among domestic firms in the 1980-85 period. In sectors where the average size of domestic and foreign firms is similar, or where exports are a primary source of sales - as in mining, paper and primary metal for example - domestic firms have undertaken merger and modernization strategies similar to that of foreign firms.

The next section reviews the pressures on firms to restructure their operations and the potential strategies which MNEs might undertake in Canada.

3.5 Forces leading to adjustment

There are indications that foreign MNEs are re-evaluating their operations in Canada and are considering fundamental changes in the way their Canadian subsidiaries are organized. This re-evaluation can be attributed to four sets of pressures which are putting immense strain on the existing MNE structures:

- the expanding internationalization of production in all industries, particularly in manufacturing;
- the rapid diffusion of information-based electronic technologies;
- shifts in Canadian demographics reflected by an aging workforce and a shortage of key labour skills; and
- the Canada-US Free Trade Agreement (FTA) which will eliminate tariffs and some non-tariff barriers to trade between the two countries over the next decade.

The well-publicized growth in manufacturing activity in lesser developed countries (LDCs), especially on the Asian Pacific Rim, is the most frequently cited example of the globalization of work. Some of these manufacturing operations were created by MNEs, but many others are locally-controlled enterprises producing goods for the export market. Initially, manufacturing in LDCs was concentrated in industries that had labour-intensive low-technology processes and relatively inexpensive product transportation costs. In recent years, however, capital- and technology-intensive operations have been established to utilize the low-wage labour forces and natural resources of LDCs. This trend has heightened international competition considerably, causing disquiet in higher-wage economies.

The internationalization of work has been aided considerably by the advent of electronic technology. The "microelectronics revolution" has led to the development of a wide range of products with relatively high value-added and low transportation costs, products in which low-wage economies have a significant trading advantage. In addition, modern telecommunications and data processing have made it considerably easier to conduct business relationships over long distances, even for small business enterprises.

Electro-mechanical technologies encouraged managers to adopt mass-production processes which supplied numerous units of an identical product. Conversely, electronic technology can provide variations in product features at a cost which is attractive to potential buyers. Just as mass-production techniques reaped "economies of scale", this flexibility offers "economies of scope". Since a greater variety of product variations can be fabricated in one workplace, electronic technology allows business to consider consolidating their operations in fewer locations.

Information technologies that continuously monitor processes and analyze data have recast the occupational mix in the workplace so dramatically that they call into question prevalent hierarchical management structures. White-collar occupational groups that traditionally collected and packaged information, such as middle-management and clerical staff, have borne much of the costs of adjusting to electronic integration at work.

In Canada, this process of adjustment has been complicated by demographic trends, in particular a shortage of key skills and the rapid aging of the labour force. Just as foreign financial capital was vital to Canada's economic development, immigration provided crucial labour skills, especially

in mechanical and technical fields. In the first 70 years of this century, many highly trained Europeans immigrated to Canada, seeking greater economic and political stability. While this influx provided a comparatively inexpensive supply of skilled labour to employers, it camouflaged the inadequate nature of Canada's technical training system. Then, in the 1980s, the supply of skilled labour from this traditional source dwindled as economic opportunities improved in other countries.

At the same time as skill shortages became acute, the labour force has been aging rapidly. The post-war "baby-boomers" who determine so many of the socio-cultural trends in Canadian society also dominate its labour markets. This group, ranging in age from 30 to 45 years, will begin to move out of the labour force and into retirement in 15 years, begging the question "Who will replace them?"

The Canada-US Free Trade Agreement (FTA) has been called by one of its chief proponents a "leap of faith"; Canadians are taking a leap into a broad range of economic adjustments with the hope that net benefits will accrue over time. The adjustments involved are substantial. Historically, the presence of high tariff and non-tariff barriers has been an important determinant of Canada's industrial structure. The existing structure will change as trade barriers fall over the next ten years. The direction of this transition is not certain, however. According to the FTA's proponents, one of its greatest benefits will be the promotion of a more export-oriented manufacturing sector. The critics of the FTA see branch plant closure as a more likely result, with production being repatriated to under-utilized US plants, or shifted to low-wage countries.

Clearly, the pressures of international competition and technological change are global in nature. The effect of these forces on multinationals and their subsidiary operations has been the subject of much study and conjecture. Demographic shifts and the potential impact of the FTA are more uniquely Canadian and their impact is more difficult to determine. What is certain, however, is that these international and domestic pressures, working simultaneously but not necessarily in concert, will shape future MNE operations in Canada.

Business enterprises, especially multinationals, respond to these types of pressures by rationalizing production. There are several different rationalization strategies from which to choose, each having a distinct economic impact. Specialization is an essential part of most strategies.

Specialization can be horizontal or vertical. Horizontal specialization involves a reduction in the number of product lines produced in a single plant. Horizontal specialization could also involve a reduction in the number of product lines either produced or sold by a firm. Vertical specialization involves a reduction in the number of stages of production carried out in a single plant or within a firm.²⁰

Within an MNE, horizontal specialization is akin to providing subsidiaries with a "product mandate". Rather than having each subsidiary produce a wide range of products for sale in the subsidiaries' domestic markets, each subsidiary manufactures a much smaller subset of the parent corporation's product line to supply export as well as domestic markets. The widespread adoption of world product mandates increases international intra-industry trade in finished goods. It also improves a country's aggregate trade balance if the value of "mandated" product exports exceed the value of imports of goods supplied by other MNE affiliates.

Specialization through product mandates can affect direct employment in a number of ways. Employment should become more cyclically stable as plants diversify their sales from the domestic market to a wider band of foreign economies. Wages should rise to reflect the higher productivity resulting from specialization. Product mandates may also require changes in the occupational mix of subsidiaries, especially if the mandate includes responsibilities for research, design and marketing as well as production. Indirect employment might also get a boost from product mandates if subsidiaries are given greater autonomy to seek out local suppliers of inputs.

Vertical specialization in MNEs means that subsidiaries receive a "process mandate". A plant (or subsidiary firm) receives intermediate goods from suppliers, often include other divisions of the parent. After completing its "mandated process", the plant ships its output to a customer, either other divisions of the parent or an external buyer. The potential effects of vertical specialization on employment differ from those of product mandating. The mix of occupations may become more specialized as certain processes such as research, product development and marketing are concentrated in fewer locations. The potential for increased local indirect employment may be limited because a local plant is more dependent upon other parts of its parent's system for both supply of inputs and demand for outputs.

Changes in the ratio of the value of establishment shipments to value-added (hereafter VS/VA) provide some indication of the degree of vertical specialization which has taken place. An increase in VS/VA indicates a move toward vertical specialization; rising shipments concurrent with constant or falling value-added occurs if an establishment's share of the entire production process has diminished. Similarly, if value-added increases and shipments remain constant or fall, the share of production has increased, indicating less vertical specialization.

Table 3.9 presents the change in VS/VA in domestic and foreign firms during the period 1970-80 and 1980-85. Between 1970 and 1980 there was a general decline in VS/VA in both domestic and foreign firms, indicating a move away from vertical specialization. The experience of domestic and foreign firms in most key sectors was similar. Only in printing, rubber & plastic, metal fabricating and food & beverage sectors did trends in VS/VA of domestic and foreign firms diverge sharply. Overall, the declines were greater among domestic firms.

The trend in the five years after 1980 was quite different. The VS/VA increased by 40 per cent in foreign-controlled manufacturing establishments and by only 25 per cent in domestic firms. Although the VS/VA ratios of both types of firms moved in the same direction in virtually all sectors, the increase was significantly larger for foreign firms. This indicates that foreign firms were more actively engaged in vertical specialization. It is likely that the relatively large size of foreign firms, which often have operations in more than one location, gives them greater potential for vertical specialization than smaller domestic-controlled enterprises.

The decision by MNEs to reduce the number of product lines or to concentrate certain types of production in certain locations can have deleterious effects. Specialization, whether horizontal or vertical, often encompasses the downgrading or abandonment of some operations. The resulting employment losses can be serious for the local or national economy of which those operations were a part. The occupational composition of the workforce may shift from primarily production and processing jobs to those in warehousing and distribution. Therefore, the adoption of such a strategy can reduce both the quality and quantity of direct employment and would severely limit the potential for indirect employment.

Table 3.9. Percentage change in value of shipments to value-added ratios in domestic and foreign firms, 1970-80, 1980-85

	Domestic-owned		Foreign-owned	
	1970-80	1980-85	1970-80	1980-85
	%	%	%	%
Mining industries	-2.6	12.1	-1.5	14.2
Food & beverage	1.1	5.1	-9.8	2.0
Tobacco products		-22.7	-15.7	34.9
Rubber & plastic	12.4	7.3	-7.6	26.0
Leather	-3.0	4.1	-11.0	39.2
Textiles	-7.5	-50.0	-2.8	-40.1
Knitting mills	-10.5	8.4	7.2	5.3
Clothing	-6.7	2.2	-11.6	5.6
Wood	-4.8	2.5	-3.6	-4.7
Furniture and fixtures	-1.9	0.3	-8.2	8.8
Paper & allied	-6.0	19.0	-8.4	10.7
Printing & publishing	4.5	2.7	-15.1	0.7
Primary metal	-7.1	7.0	5.7	-11.2
Metal fabricating	8.9	2.0	-7.6	3.3
Machinery industries	-10.8	1.9	-7.7	42.2
Transportation equipment	-10.3	10.9	-10.5	43.3
Electrical products	-20.8	2.9	-27.4	31.3
Non-metallic mineral products	2.9	4.9	-0.8	14.7
Petroleum products	98.5	21.3	55.4	39.9
Chemical & chemical products	-1.6	18.3	-4.0	23.7
All manufacturing	-14.1	24.9	-10.9	40.3

Source: See table 3.1.

MNEs may choose to rationalize production in a way that does not involve any horizontal or vertical specialization.

Rationalization is simply the adoption of production techniques and arrangements which minimize costs, given the available technology, input prices, taxes, transportation costs, tariffs, and other trade restrictions.²¹

Local sourcing of inputs, which reduces the costs of transportation and permits the use of "just-in-time" inventory control, is one example of rationalization that does not involve specialization. A related action is the contracting out of support services. In both cases the net employment impact is relatively small; indirect local employment should rise, but often at the expense of those who become unemployed elsewhere.

The processes of specialization and rationalization also frequently involve a shift in ownership of assets between corporations. It has become common for an MNE which has chosen to abandon a particular operation to sell the unwanted assets and product lines to another firm. This form of divestment may not lead to immediate reductions in employment as plant closures would, but the new owner will eventually take steps to more fully integrate the purchased assets into its existing system, with all the direct employment effects such a reorganization would imply.

The decision to take over or merge with an enterprise in the same or related industry is often part of an effort to vertically integrate, that is ensure a more secure supply of inputs or a wider market for outputs. The essential point about mergers and takeovers is that they are not executed with the thought of "leaving things as they are". Such transactions usually foreshadow change, based on the strategies outlined above.

Recent public policy initiatives, including more relaxed regulation of foreign ownership and the free trade agreement, have focused the public's attention on the actions of MNEs and what these actions indicate about the future of Canadian operations under MNE control. The following section reviews some of the strategies adopted by MNEs in Canada and their implications.

3.6 Adjustment by MNEs in Canada

The choice of adjustment strategies by MNEs in response to globalization, technological change, shifting demographics and the FTA is an important determinant of how the costs of adjustment are distributed. This section reviews some of the evidence available on the strategies implemented by MNEs to meet the challenges of the Canadian economic environment.

Attempts have been made to identify the direction of these corporate strategies through a variety of empirical and statistical means. After reviewing much of this literature, McFetridge concludes,

... while economists believe instinctively that trade liberalization and some form of specialization go hand in hand, confirming this empirically is a difficult task. Specialization occurs in many dimensions (product, process, type of input) and is influenced by many factors (relatively prices, technology, risk). Existing empirical work has focused on only one dimension of specialization and has been unable to hold the effects of changes in the environment constant. It often covers only a relatively short period ... which, if case study evidence is correct, may be insufficient to reveal long-term trends. Some measures of specialization are themselves suspect. ... Given these qualifications, the published evidence tends to indicate that trade liberalization has induced product specialization by both multinationals and domestic firms.²²

A point which McFetridge fails to raise is that the FTA implemented in 1989 is unique. It involves a much more rapid and comprehensive trade liberalization than the movements brought about through multilateral negotiation. Consequently, it is fair to speculate whether the response to the FTA will perhaps be qualitatively different from previous trade liberalizations.

A study of MNE intentions in light of the FTA was undertaken by Rugman. He surveyed 26 of Canada's largest enterprises, 16 Canadian-based MNEs and 10 Canadian affiliates of US multinationals.

Perhaps the most interesting result of the questionnaire is that responses by the US subsidiaries in Canada are virtually identical to those of Canadian multinationals. Both groups are strongly in favour of trade liberalization and both state that they will be able to readily adjust to new bilateral and multilateral trade regimes. There is no evidence in these responses that US subsidiaries in Canada will close plants and create job losses. Instead, they anticipate that employment will increase in their companies and that their workers will benefit from trade liberalization.

Both the Canadian multinationals and the US subsidiaries in Canada report that they will be able to absorb adjustment costs, that they do not require long phase-ins, a devalued exchange rate, nor adjustment assistance.²³

Rugman's sample includes corporations that account for a significant amount of the trade between the US and Canada. However, the survey sample was small and was not broadly based. More importantly, the questionnaire asked whether the firms would close Canadian plants as a result of the FTA but did not inquire whether plant might be closed for other reasons - such as those described in section 3.5 above.

Reviewing the actions of MNEs in the past several years, particularly since the FTA was finalized, may be the most instructive means of determining MNE strategies. Analysts who see the presence of extensive direct foreign investment as facilitating adjustment to the FTA often point to the example of the Canadian auto industry.

Since the Canada-United States Automotive Trade Products Agreement - commonly called the Auto Pact - was signed in 1965, automobiles manufactured in the two countries, and the parts used in their production, have moved across the border free of tariffs. In the early years of the Auto Pact, the major automobile manufacturers undertook horizontal specialization, reducing the number of models built in Canadian plants and lengthening production runs. Initially, Canada experienced considerable deficits in auto trade with the US, as Canadian assembly plants used parts from American suppliers. The trade deficit from auto parts diminished during the 1970s, only to re-emerge after the recession in the early 1980s (as shown in table 4.1 in the next chapter). However, during the 1980s, Canadian auto assembly plants have been building car and van models which are popular among American consumers. As a result Canada has enjoyed a considerable trade surplus in assembled automobiles. After the 1981-82 recession, Canada's annual trade surpluses in assembled vehicles more than offset the deficits accrued in parts.

More recently, the North American auto industry has reduced its administrative workforce and has closed several older and smaller facilities in response to the challenge from foreign competition. Because the Canadian wing of the industry is relatively modern, Canadian workers have not been severely affected by these workforce reductions thus far. However, there is general agreement that when the North American manufacturers undertake another round of plant closures the impact will be felt in Canada.

Adjustment in the electrical products industry provides another example. During the 1980s, GE Canada significantly reduced the number of products in each of its Canadian plants. The company received world product mandates from its parent for several products including nuclear fuel handling systems, hydro-electric turbines and large electric motors. In 1984, GE Canada withdrew from the small appliance market when the firm's parent sold its entire housewares products division to Black and Decker, including one plant in Canada. Several years later the Canadian housewares plant was closed by

Black and Decker, a company which had been primarily known as a power tool manufacturer.²⁴

GE Canada's subsidiary producing large household appliances, Camco Inc., has abandoned some product lines to concentrate on the manufacture of low- to medium-volume products for the North American market. The product lines dropped by Camco are now being imported from General Electric plants in the United States. Another Canadian manufacturer of large appliances, Inglis, is jointly owned by the US-based Whirlpool (51 per cent) and Sears Canada (20 per cent). In the late 1980s, the firm modernized some of its operations and closed one plant, manufacturing fewer types of product with fewer employees. The many brand names placed on products manufactured by Inglis also reveals an ongoing process of rationalization. The firm's output is sold under the brand names Inglis and Whirlpool, and under the "house" brand names of several large department store chains. Canadian Westinghouse, a company which had been prominent in the appliance sector, has refocused its efforts from the consumer products toward industrial and commercial markets, closing some plants in the process.

Significant mergers by electrical industry MNEs have also affected Canadian workplaces. For example, the 1987 merger of Asea and Brown Boveri, both MNEs with production facilities in Canada, created one of the world's largest electrical products manufacturers. The merged firm has a wide range of products and is now in the process of rationalizing its product lines and Canadian production facilities.

The strategy seen in the electrical products industry is typical of the "middle-of-the-road" approach which many firms have taken. Greater specialization occurs in most operations, some marginal facilities are closed, and divestment occurs in sectors with low potential for growth. The objective of many restructuring plans has been to reduce administrative overhead and thereby "flatten" the organizational hierarchy.

In his study of American multinationals, McFetridge finds evidence that affiliates in developed countries and, to a much lesser extent, affiliates in lesser developed countries have lost employment shares to their US parent over the 1977-84 period.

The implication is that what might be termed the "developed country functions" were being centralized to the US parent while the LDC or perhaps low-wage functions continued to be shifted to less-developed countries. If correct, this thesis casts the continuing role of majority affiliates in developed countries into question.

While this is an interesting and provocative conclusion, the analysis here only points in this direction.²⁵

The advent of high-speed data-processing and communications technology have made this type of centralization possible. While it has little impact on production workers, it has serious negative consequences for white-collar employees who have traditionally enjoyed greater job security in the face of cyclical fluctuations. The implications for the future occupational composition of MNE subsidiaries are obvious.

There is widespread concern about the ability of Canadian labour markets to contend with far-reaching industrial and occupational restructuring. The Advisory Council on Adjustment, a body formed by the federal government to recommend FTA adjustment policies, has stated that Canada needs "to adapt to an emerging world in which technological innovation and an increasingly

well-trained and well-educated workforce are the keys to survival and success". The Council's 1989 report continues,

The potential to direct specific assistance to individuals adversely affected by the FTA was exhaustively explored. A fundamental obstacle in this regard is the problem of distinguishing between the effects of the FTA and those of larger, global economic environment. It is virtually impossible, in the Council's view, to clearly and conclusively attribute any particular economic environment - such as a plant closure - solely to the effects of the FTA ... Therefore, instead of attempting to identify specific causes of job dislocation, the central thrust of the Council's recommendations is to promote the swift reintegration into the workforce of all workers displaced by economic change of any kind.²⁶

Several attempts have been made by bipartite and tripartite bodies to develop a consensus on spreading the costs of adjustment across the economy. The Advisory Council on Adjustment, quoted above, included the participation of one labour leader and four business leaders. The Canadian Labour Market and Productivity Centre (CLMPC) Task Force on Adjustment, consisting of an equal number of business and labour representatives, published Working Together to Manage Change. The CLMPC report argued that traditional government policies aimed at reducing long-term employment through basic skills training were inadequate. It advocated a new focus for Canadian labour market policy with the adoption of programmes to cover the whole labour force, including those currently employed, offering training in more advanced skills and more opportunities for upgrading.

These well-intentioned discussions among government, business and labour, however, cannot alter Canada's poor record in labour market adjustment. The lack of public policy initiatives in labour market adjustment since the negotiation of the FTA means that considerable stress is being placed on the collective bargaining process as it deals with employment and income security for affected workers. This is especially true among the highly unionized large firms in the manufacturing and mining sectors, many of which are MNEs.

Conclusion

The influence of MNEs on Canadian labour markets is extensive. This chapter has demonstrated that, although we can identify the primary determinants of future MNE activity in Canada, no one can be sure what the future will look like.

However, the impact of foreign-owned MNEs extends well beyond those who they employ directly. These enterprises spend considerable sums on goods and services ranging from custodial services to technology-intensive manufacturing inputs. The relationship between foreign-owned firms and their suppliers is discussed in the following chapter.

Notes

¹ Statistics Canada has three primary sources for employment data: (1) the monthly Labour Force Survey of 48,000 households collects data on labour market activity; (2) the monthly Survey of Employment, Payrolls, and Hours of 70,000 establishments is a comprehensive source of employment and earnings data; and (3) the Decennial Censuses, since 1871, is the most complete description of the demographic, social, cultural and economic characteristics of Canada's population. For more detailed analysis of labour market databases

in Canada see K. Waldie and P. Kumar, Labour Research: A Resource Manual, Canadian Labour Market and Productivity Centre, Labour Branch, Ottawa, 1989.

² J.S. McVey, "Notes on employment change of domestic and foreign-controlled firms: 1978-85", unpublished paper, Statistic Canada, 25 Nov. 1987, p. 1.

³ ibid., p. 2. And see Michael Ray: Standardising employment growth rates of foreign multinationals and domestic firms: From shift-share to multifactor partitioning (the case of Canada), Multinational Enterprise Programme Working Paper No. 62 (Geneva, ILO, 1990).

⁴ ibid., p. 4.

⁵ Between 1982 and 1985, employment in foreign-owned firms in the transportation equipment sector grew by 35,000. During the same period manufacturing employment in foreign firms declined by 10,200, or 1.6 per cent. Excluding the changes in transportation equipment employment, the foreign firm employment in manufacturing declined by about 8.3 per cent.

⁶ The data examined in Chapter 2 exclude crown corporations, thus it understates Canadian ownership in the petroleum field. For example, the federal crown corporation Petro-Canada is the third largest integrated oil company in Canada, ranked by sales, after Imperial Oil and Shell Canada. Petro-Canada had assets of \$3.77 billion in 1980 with 2,800 employees; by 1988 the company had expanded to \$8.61 billion in assets and 7,373 employees. This expansion, for the most part, occurred through the purchase of Canadian petroleum assets of foreign multinationals.

⁷ The data presented in tables 3.2 and 3.3 follow the firms' fiscal years. In the last quarter of 1988 control of Consolidated Bathurst was purchased by an American MNE, Stone Containers, and the name of the company was changed to Stone Consolidated. Other transactions not reflected in the table is the merger between Molson Breweries and Carling-O'Keefe Breweries and the purchase of Texaco Canada by Imperial Oil in early 1989.

⁸ It should be noted that, because Alcan and Varsity both report only world-wide employment levels, not all these jobs losses occurred in Canada.

⁹ Except for a few plants in Quebec, the auto manufacturing is heavily concentrated in southern Ontario.

¹⁰ Some examples of large-scale ventures involving foreign interests that failed despite government funding include: an oil refinery in Come-by-Chance, Newfoundland, the Bricklin automotive plant in New Brunswick, Manitoba's Churchill Forest Industries, a heavy water plant in Nova Scotia, and an ITT paper plant in northern Quebec.

¹¹ Government of Canada Foreign Direct Investment in Canada, Information Canada, 1972, pp. 405-407.

¹² J. Britton and J. Gilmour, The weakest link: A technological perspective on Canadian industrial underdevelopment, Science Council of Canada, Background Study No. 43 (Ottawa: Supply and Services Canada, 1978), p. 96.

¹³ Royal Commission on the Economic Union and Development Prospects for Canada, Report Volume 2 (Ottawa: Supply and Services Canada, 1985), p. 102.

¹⁴ ibid., p. 235.

¹⁵ D.G. McFetridge, Trade Liberalization and the Multinationals, Economic Council of Canada, 1989, p. 52.

¹⁶ *ibid.*, p. 52.

¹⁷ Royal Commission on the Economic Union and Development Prospects for Canada, *op. cit.*, p. 93.

¹⁸ It should be kept in mind that, while nominal value-added per employee was increasing by less than 14 per cent over this two-year period, price indices such as the Consumer Price Index (CPI) and Gross Domestic Product Implicit Price Index (GDP deflator) rose by 24 and 20 per cent respectively. This reflects the significant decline in productivity which occurred during the recession.

¹⁹ By comparison, from 1982 to 1985 the CPI rose by less than 15 per cent and the GDP deflator increased by just over 11 per cent, suggesting very large gains in productivity.

²⁰ D.G. McFetridge, *op. cit.*, p. 11.

²¹ D.G. McFetridge, *op. cit.*, p. 12.

²² D.G. McFetridge, *op. cit.*, p. 16.

²³ Alan Rugman, Trade Liberalization and International Investment, Economic Council of Canada, Discussion Paper No. 347 (1988), pp. 7-20, 7-21.

²⁴ The closure of Black and Decker's Barrie, Ontario, plant took place over the vociferous opposition of local city and union officials who claimed that the company had violated the promises made to its workforce and the city when the plant was purchased from GE Canada.

²⁵ D.G. McFetridge, *op. cit.*, pp. 25-27.

²⁶ Advisory Council on Adjustment, Adjusting to Win, Supply and Services Canada, Mar. 1989, pp. xvi-xvii.

4. INDIRECT EMPLOYMENT EFFECTS OF MNEs

The previous chapter examines some of the direct employment effects of MNEs operating in Canada and discusses the potential impact of changing technology, shifting demographics, increasing international competition and trade liberalization on direct MNE employment. This chapter focuses on the indirect employment effects of MNEs.

As Jequier (1989) points out, determining the impact of MNE activity on the quantity and quality of indirect employment has given researchers in all countries considerable difficulty. One of the first problems in studying indirect employment is defining the concept. Jequier identifies three types of effects which can be summarized as follows:

- vertical effects which result from the backward linkages between the MNE and its suppliers and the forward linkages between the MNE and its customers or distributors;
- horizontal effects which refers to the MNE's impact on its competitors or on enterprises operating in affected sectors; and
- macroeconomic effects caused by the heightened level of economic activity made possible by the MNE's endeavors.¹

Once indirect employment effects have been conceptualized, the greatest obstacle to rigorous analysis is the lack of data. Input-output data are an essential ingredient in this type of analysis and, in most countries, there is little information on the links between suppliers and customers. While Statistics Canada maintains good annual input-output tables which can be used for a general analysis of indirect employment, this data is not disaggregated by country of control. Examining the producer and consumer surpluses which accrue from transactions involving MNEs could provide a fuller understanding of indirect employment effects. However, these surpluses are difficult, if not impossible, to measure. In this regard, Canada is no different from other countries.

4.1 Indirect effects attributed to foreign MNEs

The structure of the Canadian economy is frequently criticized for the poor backward and forward linkages between the exploitation of natural resources and the manufacturing sector. Such analysis invariably points to the large proportion of raw materials and semi-finished goods which comprise Canadian exports, compared to the exports of other developed nations. At the same time, a large share of Canadian imports consist of capital equipment used to exploit and process natural resources.

The widespread presence of foreign-owned multinational enterprises in the Canadian economy is cited by economic nationalists as the reason for this "imbalance". In this line of argument, foreign subsidiaries have limited interest in developing suppliers locally because MNEs have established links with suppliers in their home countries. When supplies are purchased locally, they are not necessarily purchased from domestic-controlled firms. It is not uncommon for a corporation supplying an MNE in its home country to have a Canadian subsidiary providing the same inputs to its customer's Canadian division. These types of relationships are especially common in the transportation equipment and petrochemical sectors. This leads to the conclusion that the vertical indirect employment generated by MNEs is, at best, limited.

The Canadian automotive industry operates under the US-Canada Auto Pact which provides for tariff-free trade in assembled vehicles and parts. The international sourcing patterns of motor-vehicle manufacturers presented in table 4.1 are often used as an example of the poor vertical links between MNEs and domestic industry. Canadian assembly plants have always purchased significantly more original parts from their American parents than is purchased by US-based plants from Canadian suppliers. Throughout the 1980s, Canadian plants of the major American automotive manufacturers imported roughly twice the original equipment parts from in-house sources in the United States as was exported to the United States from Canadian plants.

Table 4.1. International sourcing patterns of original parts by major motor-vehicle manufacturers, various years, 1965-88

	Purchases from in-house suppliers		Purchases from independent suppliers	
	US from Canada (\$ million)	Canada from US (\$ million)	US from Canada (\$ million)	Canada from US (\$ million)
1965	17	522	74	236
1970	454	1 153	487	505
1975	797	2 209	876	1 051
1980	1 604	3 992	1 253	1 226
1985	4 621	8 490	3 381	3 871
1986	4 869	9 710	3 736	4 619
1987	4 579	7 251	3 819	4 385
1988	3 979	8 752	3 500	4 838

Source: Industry, Science and Technology, Canada, Statistical Review of the Canadian Automotive Industry: 1988 (Ottawa: Supply and Services, Canada, 1989), p 16.

Through the 1970s, the sales by Canadian independent parts suppliers to US plants expanded relative to the sales of US independent suppliers to Canada. By 1980, the annual exports by Canadian independents slightly exceeded imports from their American counterparts. However, by 1988, Canadian plants were importing \$1.38-worth of parts from US-based independent suppliers for every dollar purchased from Canadian independent suppliers by American plants.

These trends in international sourcing have occurred as indirect employment has become a more prominent factor in the transportation equipment sector. In 1964, the ratio of employment in automotive parts to vehicle assembly employment was 0.55. The ratio rose to 1.0 by 1969 and remained relatively unchanged for the next decade. Following the recession in the early 1980s, the ratio rose again, reaching 1.4 in 1984.²

The notion that the impact of MNE activity on vertical indirect employment is negative can be extended to horizontal employment effects as well. The relatively large financial and technological resources available to MNE subsidiaries make it very difficult for domestically-owned firms to compete, often leading to the takeover or merger of domestically-owned operations by foreign interests. It was this process, in the first half of

the twentieth century, which led to the disappearance of Canadian-owned automobile manufacturers and petroleum companies.

Some observers argue that the presence of MNEs has not been a primary cause of the "imbalance" in the Canadian economy. The small Canadian domestic market for finished goods, the uncertain supply of highly skilled labour due to mediocre employee training by industry, the inadequacy of research and development expenditures, and government intervention in the economy in the form of high tariffs, have provided more important influences on the structure of the Canadian economy than the degree of foreign ownership. The indirect employment impact of any enterprise is limited by the same factors. Thus, MNEs are no worse at generating indirect employment than their Canadian-owned counterparts in the same sectors.

There is little hard evidence to support either side of this debate. Jequier, in his paper on methodologies for measuring indirect employment effects, provides a useful summary of the "conventional wisdom" on the indirect employment impact of MNEs. These "rules-of-thumb" indicate that the indirect employment effects of multinationals in Canada are influenced by conflicting factors.³

International evidence suggests that the longer an MNE has been active in an economy the more positive its impact on indirect employment. This stems from two factors. First, the longer a foreign firm is in operation, the more likely it is to purchase supplies from host country sources; and, second, an MNE subsidiary is less likely to have a disruptive impact on existing firms if it has been active for a long time. Jequier also notes that firms in capital-intensive industries generate more indirect employment than MNEs in labour-intensive industries (although the firms in labour-intensive sectors generate more direct employment).

One could argue that, with Canada's long history of foreign direct investment, MNEs have established strong and growing links with Canadian suppliers and are not dislocating the employment of domestic firms. For example, as table 4.1 reported, during the 1970s American-based operations in the automotive industry purchased roughly the same amount of inputs from Canadian independent suppliers as was purchased from American suppliers by Canadian plants.⁴ Furthermore, most foreign direct investment in Canada is concentrated in heavy manufacturing and resource extraction, both involving highly capital-intensive processes. In this light, the indirect employment effects are likely to be strongly positive.

However, Jequier also outlines several trends which suggest that the indirect employment effects of MNEs in Canada may not be large. Firms which operate in only a few foreign countries tend to generate fewer indirect employment opportunities compared to highly multinational firms because they are not experienced in developing systems of local suppliers. Similarly, fully-owned subsidiaries often lack the knowledge of local markets that comes with host-country equity participation, and thus tend to generate fewer jobs indirectly than subsidiaries with some local ownership. Finally, Jequier notes that MNEs from large non-European countries such as Japan and the United States tend to offer less indirect employment than MNEs from small European nations.

This implies that, to the extent that MNEs operating in Canada are parts of large world-wide enterprises, the indirect employment impact will be positive. However, the operations of many foreign MNEs in Canada are the wholly-owned subsidiaries of relatively small American corporations with little experience operating in foreign countries. Jequier's summary suggests that the presence of these smaller American MNEs, who are likely to lack the

knowledge or desire to develop a network of local suppliers for their Canadian operations, limits the possibilities for generating indirect employment.

Indirect employment effects of Canadian MNEs

To examine only the indirect employment effects of foreign MNEs operating in Canada would be incomplete. As Chapter 2 explains, Canadian-owned firms are becoming increasingly active foreign investors, particularly in the United States. The US operations of Canadian firms are relatively new, are capital-intensive, and are, for the most part, wholly-owned subsidiaries. Jequier's summary of international experience would suggest that these Canadian-owned US operations are generating indirect employment, not in the United States but in Canada.

Rugman provides considerable evidence to support this view. By analyzing the pattern of international trade between US subsidiaries in Canada and the United States and between Canadian subsidiaries in the United States and Canada, Rugman shows that Canada has benefited from intra-firm trade. According to Rugman,

[his analysis] ... has demonstrated that Canadian multinationals play an important role in helping Canada to benefit from its foreign direct investment in the United States. Over the last ten years they have substantially increased their stake in the United States. This has resulted in a benefit to Canada since Canada's affiliates purchase five times as much from Canada as they ship back to Canada. This may gradually change as the firms in the United States mature and become self-reliant. However, over the foreseeable future, the reliance of the affiliates on Canadian inputs is likely to continue ...

[On the other hand] it has been shown that the mature US subsidiaries in Canada for the last 20 years have purchased roughly the same amount from the United States, in most cases from their parent groups, as they sell back to them.⁵

The pattern of trade detailed by Rugman suggests that considerable indirect (and direct) employment opportunities are generated for Canadians by the actions of their MNEs abroad. However, the trade data used by Rugman does not indicate the extent to which subsidiaries import from, or export to, countries other than the United States or Canada. If US subsidiaries operating in Canada import extensively from a division of the parent based in a third country, then Rugman's analysis is incomplete. Similarly, Rugman's conclusions are biased if Canadian subsidiaries operating in the United States are exporting finished goods to a third country, displacing the production of a Canadian operation.

4.2 Forces leading to adjustment and indirect employment

Chapter 3 describes four forces which are leading to considerable adjustment by MNE organizations in Canada and which affect their impact on direct employment;

- the expanding internationalization of work in all sectors, particularly in manufacturing;
- the rapid diffusion of information-based electronic technologies;

- shifts in Canadian demographics reflected by an aging workforce and a shortage of key labour skills; and
- the Canada-US Free Trade Agreement (FTA) which will eliminate tariffs and some non-tariff barriers to trade between the two countries over the next decade.

These same pressures will have considerable impact on the indirect employment generated by MNEs.

The increased competition resulting from the internationalization of work has led to the widespread adoption of cost-minimizing production techniques. One such technique is "just-in-time" inventory management, which aims to curb a firm's inventories of inputs, intermediate goods and finished products during the production process. To reduce handling and storage costs, customers are increasingly demanding that supplies are delivered according to a specific schedule which matches their production needs. This practice opens new opportunities to potential suppliers which are located in close physical proximity to major manufacturers. Large firms are now more likely to consider meeting their needs from a local supplier because of more expedient and reliable delivery.

In Canadian industries which have adopted just-in-time practices extensively, such as the automotive sector and electrical products, parts suppliers are becoming increasingly clustered around major manufacturing facilities. In some cases, locally supplied parts are displacing inputs formerly sourced from the US or overseas, avoiding the unpredictability inherent in longer distances and international border crossings. The effect of this practice on indirect employment is clearly positive although its magnitude is difficult to determine.

In addition to the obvious vertical indirect employment generated by greater amounts of out-sourcing of components to local firms, such practices by MNEs can also lead to horizontal effects. The technical and marketing experience gained by local firms supplying a nearby MNE can potentially be used to develop new products and attract new customers. To the extent that these opportunities are exploited, employment in the local firms should expand. Alternatively, local firms that do not gain this type of experience will probably be less competitive and could be threatened with extinction.

When MNEs seek to increase their purchase of components from independent suppliers rather than producing entire products in-house, indirect employment rises while direct employment falls. In aggregate, one trend cancels out the other. However, there is a concern that the indirect employment is of lower quality than direct employment by a large employer; in general, working for a small firm that is dedicated to supplying a few large customers offers less employment stability, lower compensation and poorer working conditions. The lower level of disposable income implied by this trend may mean that the macroeconomic indirect employment effects of MNEs may be reduced in the long run.

Changing technology has also encouraged a shift from direct to indirect employment. New technologies have diminished the role of white-collar employees whose primary function has been to collect and distribute information. Many firms have discovered that it is no longer cost-effective to have functions such as data processing provided in-house. At the same time, the need for the specialized skills required to establish and maintain modern electronic communication systems fluctuate considerably, making it difficult to justify the hiring of a full range of computer systems staff.

As a result, there has been a significant growth of the employment in the "services to business" sector. This sector includes enterprises which provide everything from short-term clerical help to professional consulting services on a wide range of management issues. While corporations have always made use of these types of services, their use today is more regular and a more integral part of day-to-day management practices than it ever was in the past. This trend from direct to indirect service employment is seen by managers as labour-saving, an indication that it will result in reduced overall employment levels.

The generation of indirect employment by MNE activity may be hampered by the emerging shortages of skilled blue-collar workers in Canadian labour markets. If MNEs wish to contract out highly specialized production work, their ability to do so will be limited by the scarcity of skilled labour. Furthermore, the poor "training culture" in Canada, particularly in small Canadian enterprises, makes it unlikely that local industries will respond to opportunities by improving the skills of their workforces, at least in the short term.⁶ Prolonged shortages of vital labour market skills may induce MNEs to reconsider the types of production undertaken in Canada, and they may decide to relocate processes which require high skill levels.

The US-Canada Free Trade Agreement (FTA), implemented at the beginning of 1989, is likely to have a mixed impact on indirect employment generated by MNEs. Jequier's summary of international evidence notes that greater export intensity of an operation tends to increase indirect employment. The FTA should increase the export intensity of MNE operations in Canada by opening the American market to Canadian-produced goods, and thus one would expect indirect employment to expand.

However, Jequier also notes that indirect employment-generating effects are "strongly influenced by the policies of the host country government".⁷ Research shows that regulations which require local sourcing of inputs do increase indirect employment. The FTA, along with the repeal of the Foreign Investment Review Agency legislation, has significantly loosened the regulation of direct foreign investment from the United States. Consequently, an effective public policy tool for ensuring high levels of indirect employment is no longer available to Canadian governments.

Conclusion

The amount of indirect employment generated (or displaced) by MNE activity is one of the primary considerations when weighing the costs and benefits of direct foreign investment. In Canada, the presence of MNEs is cited as a factor in creating an unnatural imbalance in the composition of Canadian imports and exports by economic nationalists. Others argue that MNEs act just as Canadian-owned firms do and generate similar levels of indirect employment.

This chapter has shown that both the magnitude and direction of indirect employment effects are extremely difficult to determine. However, we can surmise that, in the past, Canada has not maximized the potential indirect employment of MNE activity. Furthermore, the pressures of trade liberalization, demographic shifts, international competition and technological change will have a mixed impact on the generation of indirect employment, some of which will be generated at the expense of direct employment. This mixed impact means considerable adjustment for Canadian business enterprises and their employees.

Notes

¹ Nicolas Jequier, Measuring the indirect employment effects of multinational enterprises: Some suggestions for a research framework, International Labour Office, Multinational Enterprises Programme, Working Paper No. 56, p. 3.

² These ratios were drawn from data found in Statistics Canada, Motor Vehicle Manufacturers and Motor Vehicle Parts and Accessories Manufacturers, various years.

³ Jequier, op. cit., pp. 4-7.

⁴ In the nine years during the 1970s for which data are available, Canadian operations purchased more in the US than US plants purchased in Canada in only four years. Since 1980, however, the balance of trade in purchases from independent suppliers has swung significantly in favour of American suppliers.

⁵ Alan Rugman, Trade Liberalization and International Investment, Economic Council of Canada Discussion Paper No. 347, Ottawa, Apr. 1988, pp. 3-26 - 3-28.

⁶ These concerns have been the focus of numerous studies over the past two decades. Of these, the most recent are two papers published by the federal government; see Employment and Immigration Canada, Success in the works: A profile of Canada's emerging workforce and Success in the works: A policy paper, Ottawa, Supply and Services Canada, 1989.

⁸ Jequier, op. cit., p. 5.

5. THE OUTLOOK FOR EMPLOYMENT IN MNEs

This study has outlined some of the key historical trends in foreign direct investment in Canada, their impact on employment in the mining and manufacturing sectors and the changing structure of multinational enterprises brought about by globalization, technological change, shifting demographics and trade liberalization. The analysis suggests that the role of MNEs in the Canadian economy has entered a period of transition. At present, there are conflicting indications as to whether their significant role in the economy is likely to grow or decline.

There is unambiguous evidence that the importance of foreign direct investment diminished steadily from the early 1970s until 1986, the last year for which figures are available. However, since 1986 there have been significant public policy initiatives towards the deregulation of direct foreign investment and liberalization of trade with the United States which are likely to lead to greater participation of MNEs in the Canadian economy. While aggregate data for this more recent period are not available, informal examination of corporate merger and takeover activity suggests that foreign ownership in some sectors may be on the rise for the first time in two decades.

Canadian public policy pertaining to direct foreign investment is becoming less restrictive as international competitive pressures and electronics-based technological change are forcing MNEs to restructure their operations. The Canadian divisions of MNEs have been significantly affected by corporate rationalization programmes during the 1980s. Canadian facilities today are far more likely to be producing a smaller variety of products and to be exporting more of their production than two decades ago. These operations have become more efficient and their push for greater productivity has meant considerable adjustment for Canadian workers, with both positive and negative effects.

Predicting the impact of this transition on aggregate employment is difficult because the choice of adjustment strategy will be made on a firm-by-firm or sector-by-sector basis. Furthermore, technological change, and the new forms of work organization which new technology encourages, will alter both the nature and magnitude of the impact of MNE activity on direct and indirect employment. Unlike the electro-mechanical technology it is superseding, electronic-based information technology provides economies of scope in production as well as economies of scale. The balance between these two economies will vary between sectors, meaning that adjustment strategies adopted by different corporations, and consequent employment effects, may diverge more sharply than they have in the past. In fact, this type of technology brings into question important elements of existing MNE management structures. While large MNEs have the financial strength to develop these technologies, over the long term, their structures may prove too unwieldy to take full advantage of the increased flexibility that electronic technologies provide.

Changes in technology and the international economic environment make it more difficult to forecast the potential impact of the US-Canada Free Trade Agreement (FTA). If avoidance of Canadian tariff and non-tariff barriers was the primary reason for foreign investment in Canadian production, then MNE employment in existing operations, over the long term (and, perhaps, in the short term) may be threatened by the FTA. Alternatively, if more MNEs adopt "world product mandate" strategies, the FTA could secure greater Canadian access to the large American market and lead to expanding employment. In addition, the FTA has opened up new opportunities to foreign investors,

especially in the financial sector. These developments could create a shift of employment from goods-producing MNEs and domestically-controlled service firms to service sector MNEs.

Furthermore, one must consider the influence of macroeconomic policies on corporate decisions, particularly in the short and medium term. Since the negotiation of the FTA, the Canadian central bank, afraid of rising inflationary expectations, has undertaken a more restrictive monetary policy than its American counterpart. One result has been an increase in the value of the Canadian dollar from about 75 cents American to more than 85 cents. This appreciation has limited the ability of Canadian-based enterprises to export and opened them to greater competition from imports, at the same time as tariff and non-tariff barriers are removed under the FTA.

In the year after its implementation, media reports have frequently related new corporate investments or plant closings to the FTA. However, corporate decisions are usually based on more complex factors than this casual analysis would suggest. The FTA is undoubtedly promoting economic adjustment, but it is impossible to determine whether the FTA is instigating change that would have never occurred otherwise or merely causing inevitable adjustment to occur more quickly. The proponents of the FTA argue its benefits will accrue over the longer term. At the same time, organizations and individuals opposing the trade deal have been diligently tallying the lay-offs and other economic costs which they attribute directly to the FTA.²

We have argued in this study that these adjustments will have a profound effect on Canadian workers. While analysts have pointed out that some corporations have appeared willing to incur the capital costs required to compete under the FTA, no similar willingness to underwrite the adjustment costs for labour has thus far been evinced by either business or government. Despite the promise by proponents of the FTA that it will expand aggregate employment opportunities, it is recognized the transition to the new trade regime will cause severe dislocations in some Canadian communities as operations are reduced or abandoned.³

The extent and duration of these dislocations will be influenced primarily by the work experience and skills of the workers displaced and by the employment alternatives present in their community. Skilled workers in large urban centres are always in demand in Canada and should have good alternative employment opportunities. Semi-skilled and unskilled workers in urban centres will likely experience more severe dislocation. A greater challenge will face displaced workers in small communities, where few alternatives for work exist, and where unemployment may already be relatively great. Historically, Canada's labour force has been slow to adjust to economic pressures; opportunities for skill retraining and upgrading have been deficient. Mobility has been poor, particularly among older workers with families, and public policy has not adequately addressed this problem. Taken together, these factors foreshadow a slow and difficult transition.

Concern over the number of jobs under the new trade regime may be too narrowly focused. FTA opponents have suggested that the quality of employment available under the accord will decline, as well as the quantity. Their fear is that the FTA will increase the downward pressure on the wages and working conditions. These pressures would be particularly great in the sectors which are uncompetitive compared to their American counterparts.

The most frequently contrasted situations are working conditions in Canada, supported by relatively high employment standards and labour relations legislation, and those of southern American states. Most Canadian workers feel threatened by the low-wage non-union workplaces of the American south,

especially the nearly 40 per cent who are members of labour unions. It is not surprising that American MNEs are seen as the primary conduit by which such conditions would be imported into Canada.

The larger debate

The discussion over the future employment effects of MNEs operating in Canada is inextricably linked to a more fundamental debate about the course of the Canadian economy and the nation it supports. In addition to their concerns about working conditions, Canadian economic nationalists fear that the greater integration of the North American economies will lead, inevitably, to calls for a harmonization of public policies in many other fields including health care, cultural industries, social support for the unemployed and disadvantaged and the environment. Canadian economic nationalists and others argue that Canadian governments will be unable or unwilling to withstand such pressures.

Those FTA proponents who seek to maintain Canada's socio-political distinctiveness claim that, as a global economy emerges, extensive foreign investment - and the financial and technological capital it brings - will enable Canada to maintain public policies which are at variance with those of the United States.

Because significant components of the FTA remain to be negotiated or given interpretation, particularly those sections which define public subsidies, its ultimate impact on employment, on foreign and domestic MNEs, and thus on society generally, remain to be assessed. It is already clear that the FTA is increasing the pace of change of these relationships, however, and there is little consensus on where this change is leading.

Another certainty is that judging the costs and benefits of extensive MNE participation in the Canadian economy will continue to keep social scientists engaged. The resulting scholarly exchange is likely to remain inconclusive until the limitations of the existing databases on foreign and domestic-owned firms in Canada are overcome.

Notes

¹ Major foreign acquisitions in Canada since the end of 1986 include: the sale of de Havilland Aircraft by the Canadian Government to Boeing; the purchase of 43 per cent of Husky Oil by Union Faith Co. of Hong Kong; the acquisition of 63 per cent of British Columbia Forest Products by Fletcher Challenge of New Zealand; the purchase of 100 per cent of real estate developer Cadillac Fairview by American institutional investors; the takeover of Dome Petroleum by Amoco; and the sale of Consolidated Bathurst to Stone Container.

² The national umbrella organization for the "anti-free trade" forces is called the Pro-Canada Network. The Network and two of its constituent bodies, the Council of Canadians and the Canadian Labour Congress, have been most prominent in outlining the economic costs of the FTA. In January 1990, executives of the Canadian Labour Congress stated that, according to their records, approximately 72,000 jobs had been lost as a direct result of the FTA.

³ These conclusions were drawn by two groups with business and labour representation: the Canadian Labour Market and Productivity Centre Task Force on Adjustment, consisting of an equal number of business and labour representatives, in its report Working Together to Manage Change (Ottawa:

Canadian Labour Market and Productivity Centre, Jan. 1989), and the federal government's Advisory Council on Adjustment, comprised of four business and one labour representative, in Adjusting to Win (Ottawa: Supply and Services Canada, Mar. 1989).

BIBLIOGRAPHY

- Bliss, Michael. Northern Enterprise: Five Centuries of Canadian Business. Toronto: McClelland and Stewart, 1987.
- Britton, John N.H., and James M. Gilmour. The weakest link: A technological perspective on Canadian industrial underdevelopment, Science Council of Canada, Background Study No. 43. Ottawa: Supply and Services Canada, 1978.
- Cameron, Duncan (ed.). The Free Trade Deal. Toronto: James Lorimer, 1988.
- Canada, Advisory Council on Adjustment. Adjusting to Win. Ottawa: Supply and Services Canada, Mar. 1989.
- Canada, Economic Council of Canada, Venturing Forth: An Assessment of the Canada-US Free Trade Agreement. Ottawa: Supply and Services Canada, 1988.
- Canada, Employment and Immigration Canada. Success in the works: A profile of Canada's emerging workforce. Ottawa: Supply and Services Canada, 1989.
- . Success in the works: A policy paper. Ottawa: Supply and Services Canada, 1989.
- Canada. Foreign Direct Investment in Canada. Ottawa: Information Canada, 1972.
- Canada, Industry Science and Technology Canada. Statistical Review of the Canadian Automotive Industry: 1988. Ottawa: Supply and Services Canada, 1989.
- Canada, Royal Commission on Canada's Economic Prospects. Final Report. Ottawa: Queen's Printer, 1957.
- Canada, Royal Commission on Dominion Provincial Relations, Report, Ottawa: 1940.
- Canada, Royal Commission on the Economic Union and Development Prospects for Canada, Report. Ottawa: Supply and Services Canada, 1985.
- Canada, Statistics Canada. Canada's International Investment Position, Cat. No. 67-202. Ottawa: Supply and Services Canada, annual.
- . Corporations and Labour Unions Returns Act, Part I Corporations, Cat. No. 61-210. Ottawa: Supply and Services Canada, annual.
- . Corporations and Labour Unions Returns Act, Part II Labour Unions, Cat. Nos. 71-202 and 71-202S. Ottawa: Supply and Services Canada, annual.
- . Employment, Earnings, and Hours, Cat. No. 72-002. Ottawa: Supply and Services Canada, monthly.
- . Labour Force Survey, Cat. No. 71-001. Ottawa: Supply and Services Canada, monthly.
- . Motor Vehicle Manufacturers, Cat. No. 42-209. Ottawa: Supply and Services Canada, annual.

- . Motor Vehicle Parts and Accessories Manufacturers, Cat. No. 42-210. Ottawa: Supply and Services Canada, annual.
- Canada. The Canada-US Free Trade Agreement. Ottawa: External Affairs Canada, 1987.
- Canadian Labour Market and Productivity Centre Task Force on Adjustment. Working Together to Manage Change. Ottawa: Canadian Labour Market and Productivity Centre, Jan. 1989.
- Carver, Cheryl. Non-Union Grievance Mechanisms: A Case Study of Magna International Inc., Kingston, Ontario: Master of Industrial Relations Research Essay, Queen's University School of Industrial Relations, Aug. 1989.
- Gigantes, Phillippe Deane. Is the Free Trade Deal Really for You?, Toronto: Stoddart, 1988.
- Hazledine, Tim. "Canada-US free trade? Not so elementary Watson", in Canadian Public Policy, Vol. 14, June 1988, pp. 214-221.
- International Labour Office. Employment Effects of Multinational Enterprises in Industrialised Countries. Geneva: International Labour Organisation, 1988.
- Jequier, Nicolas. Measuring the indirect employment effects of multinational enterprises: Some suggestions for a research framework, International Labour Office, Multinational Enterprises Programme, Working Paper No. 56. Geneva: International Labour Organisation, 1989.
- Kreye, Otto. Multinational Enterprises and Employment, International Labour Office, Multinational Enterprises Programme, Working Paper No. 55. Geneva: International Labour Organisation, 1988.
- Kumar, Pradeep, and Mary Lou Coates. The Current Industrial Relations Scene in Canada: Industrial Relations in 1989: Trends and Emerging Issues. Kingston, Ontario: Industrial Relations Centre, Queen's University, 1989.
- Lipsey, Richard G., and Robert York. Evaluating the Free Trade Deal. Toronto: C.D. Howe Institute, 1988.
- Litvak, Isaiah A., and Timothy N. Warner. "A necessary marriage: The case for the US-Canadian Trade Agreement", in Multinational Business, Summer 1988. London: Economist Intelligence Unit, 1988, pp. 8-14.
- Montgomery Bowker, Marjorie. On Guard for Thee. Hull, Quebec: Voyageur, 1988.
- McVey, J.S. "Notes on employment change of domestic and foreign-controlled firms: 1978-1985". Unpublished paper. Ottawa: Statistic Canada, 25 Nov. 1987.
- McFetridge, D.G. Trade Liberalization and the Multinationals, a study prepared for Economic Council of Canada. Ottawa: Supply and Services Canada, 1989.
- Rugman, Alan. Trade Liberalization and International Investment, Economic Council of Canada Discussion Paper No. 347. Ottawa: Apr. 1988.
- The Financial Post 500. Toronto: Maclean Hunter Limited, annual.

Smith, Murray G., and Frank Stone (eds.). Assessing the Canada-US Free Trade Agreement. Montreal: Institute for Research on Public Policy, 1987.

Waldie, Ken, and Pradeep Kumar. Labour Research: A Resource Manual. Ottawa: Canadian Labour Market and Productivity Centre, Labour Branch, 1989.

Watson, William G. "Canada-US free trade: Why now?", in Canadian Public Policy, Vol. 13. Sep. 1987. pp. 337-349.

Whalley, John, with Roderick Hill (eds.). Canada-United States Free Trade, Volume 11 of the Collected Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada. Toronto: University of Toronto Press, 1985.

ANNEX

ILO PUBLICATIONS ON MULTINATIONALS

WORKING PAPERS

The series of Working Papers is devoted to the most recent research on a variety of subjects related to the on-going programme on multinational enterprises. Country and regional studies cover topics such as technology choice, export processing zones and decision-making, or give up-to-date statistics on the direct and indirect employment effects of multinational enterprises in various developing and industrialised countries. They are signed by their authors, each an expert in his own field, and are intended to stimulate discussion and critical comment.

The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy - Ten years after (Geneva, ILO, 1989)

Employment effects in industrialised countries

Employment effects of multinational enterprises: A Belgian case study (Working Paper No. 1)

by D. Van Den Bulcke and E. Halsberghe

ISBN 92-2-102265-X

ISBN 92-2-202265-3 (French version)

Employment effects of multinational enterprises: A survey of relevant studies relating to the Federal Republic of Germany (Working Paper No. 2)

by P.J. Bailey

ISBN 92-2-102266-8

Employment effects of multinational enterprises in the United Kingdom (Working Paper No. 5)

by J.M. Stopford

ISBN 92-2-102269-2

Employment effects of multinational enterprises: The case of the United States (Working Paper No. 12)

by D. Kujawa

ISBN 92-2-102276-5

Domestic employment effects of direct investment abroad by two Swedish multinationals (Working Paper No. 13)

by G.L. Jordan and J.-E. Vahlne

ISBN 92-2-102267-6

Employment effects of multinational enterprises: The case of the Republic of Ireland (Working Paper No. 22)

by Mícheál O Súilleabháin

ISBN 92-2-103249-3

Les effets des entreprises multinationales sur l'emploi: le cas de la France (Working Paper No. 24)

by Julian Savary

ISBN 92-2-203385-X

The development of employment in multinational enterprises in the Federal Republic of Germany - Results of a new survey (1974-1982) (Working Paper No. 33)

by Werner Ollé

ISBN 92-2-103847-5

ISBN 92-2-703847-7 (German version)

Employment impact of foreign investment in Greece, Spain and Portugal (Working Paper No. 44)

by Peter J. Buckley and Patrick Artisien

ISBN 92-2-105680-5

Employment in multinational banking: Recent trends and future prospects (Working Paper No. 50)

by Amin Rajan

ISBN 92-2-105915-4

Multinational enterprises and employment (Working Paper No. 55)

by Otto Kreye, Jürgen Heinrichs and Folker Fröbel

ISBN 92-2-106803-X

The Nordic countries and multinational enterprises: Employment effects and foreign direct investment (Working Paper No. 57)

by Greg MacDonald

ISBN 92-2-107136-7

Multinational enterprises and employment: The Canadian experience (Working Paper No. 61) (forthcoming)

by M. Bradley Dow and Pradeep Kumar

ISBN 92-2-107512-5

The employment growth of foreign multinationals: From shift-share to multi-factor partitioning (Working Paper No. 62) (forthcoming)

by D. Michael Ray

ISBN 92-2-107513-3

The employment effects of multinationals in the United States (Working Paper No. 64) (forthcoming)

by Duncan C. Campbell and Roger McElrath

ISBN 92-2-107537-0

Multinational banking in the age of discontinuity (Working Paper No. 65) (forthcoming)

by Amin Rajan

ISBN 92-2-107538-9

Study on the employment effects of multinational enterprises in Australia (Working Paper No. 68) (forthcoming)

by Greg MacDonald

ISBN 92-2-107541-9

Case study on the overseas activities of Japanese multinational enterprises (Working Paper No. 69)

by Susumu Watanabe

ISBN 92-2-107542-7

Employment effects in developing countries

Les effets des entreprises multinationales agro-alimentaires sur l'emploi en Amérique latine (Document du travail n° 4)

par G. Arroyo, S. Gomes de Almeida et J.M. von Der Weid

ISBN 92-2-202268-8

ISBN 92-2-302268-1 (Spanish version)

Employment effects of foreign direct investments in ASEAN countries (Working Paper No. 6)

by Y. Kuwahara, T. Harada and Y. Mizuno

ISBN 92-2-102270-6

Employment effects of multinational enterprises in Brazil (Working Paper No. 7)

by Mario Luiz Possas

ISBN 92-2-102271-4

ISBN 92-2-302271-1 (Spanish version)

Employment effects of multinational enterprises: A case study of Kenya (Working Paper No. 8)

by R. Kaplinsky

ISBN 92-2-102272-2

The effects of multinational enterprises on employment in India (Working Paper No. 9)

by U. Dar

ISBN 92-2-102277-3

Employment effects of multinational enterprises in Nigeria (Working Paper No. 10)

by O. Iyanda and J.A. Bello

ISBN 92-2-102274-9

Employment effects of multinational enterprises in the Philippines (Working Paper No. 11)

by C. Tanchoco-Subido

ISBN 92-2-102278-1

Multinational enterprises and employment in the Caribbean with special reference to Trinidad and Tobago (Working Paper No. 20)

by Terisa Turner

ISBN 92-2-103030-X

Multinationals and employment in a West African sub-region: Liberia and Sierra Leone (Working Paper No. 29)

by Olukunle Iyanda

ISBN 92-2-103623-5

Las empresas multinacionales en la ocupación industrial en Argentina, 1973-1983 (Documento de trabajo núm. 51)

Por Eduardo Basualdo

ISBN 92-2-306214-4

Employment effects of multinational enterprises in Malaysia (Working Paper No. 53)

by Yew Siew Yong

ISBN 92-2-106730-0

The employment effects of manufacturing multinational enterprises in Thailand
(Working Paper No. 54)
by Atchaka Sibunruang and Peter Brimble
ISBN 92-2-106738-6

Efectos de las empresas multinacionales sobre el empleo en el Perú (Documento
de trabajo núm. 59)
por Arturo Vásquez P., Luis Aparicio Valdez y Jorge Bernedo A.
ISBN 92-2-307221-2

Employment effects of multinational enterprises in the services sector of the
Jordanian economy (Working Paper No. 66) (forthcoming)
Tayseer A. Jaber
ISBN 92-2-107539-7

Employment effects of multinational enterprises in Indonesia (Working Paper
No. 67) (forthcoming)
by Hal Hill
ISBN 92-2-107540-0

Employment effects of multinational enterprises in twin plants in the
Caribbean with special reference to Puerto Rico (Working Paper No. 63)
(forthcoming)
by Frank Long
ISBN 92-2-107536-2

Les entreprises multinationales et l'emploi en Afrique francophone: données
récentes sur le Cameroun, le Congo, la Côte d'Ivoire, le Gabon, le Sénégal et
le Zaïre (Genève, BIT, 1988).

Employment effects of technology choice

Multinational enterprises and employment-oriented "appropriate" technologies
in developing countries (Working Paper No. 14)
by S. Watanabe
ISBN 92-2-102573-X

Technology choice and employment creation: A case study of three multinational
enterprises in Singapore (Working Paper No. 16)
by Linda Lim and Pang Eng Fong
ISBN 92-2-102838-0

Appropriate technology choice and employment creation by two multinational
enterprises in Nigeria (Working Paper No. 17)
by Joseph A. Bello and Olukunle Iyanda
ISBN 92-2-102898-4

Technology and Third World multinationals (Working Paper No. 19)
by Louis T. Wells, Jr.
ISBN 92-2-103021-0
ISBN 92-2-203021-4 (French version)
ISBN 92-2-303021-8 (Spanish version)

Multinational enterprises, technology and employment in Brazil: Three case
studies (Working Paper No. 21)
by Mario Luiz Possas, Mauricio Chalfin Coutinho and Maria Silvia Possas
ISBN 92-2-103033-4

Employment and technological choice of multinational enterprises in developing countries (A literature review and a case study) (Working Paper No. 23)
by Lawrence Marsh, Richard Newfarmer and Lino Moreira
ISBN 92-2-103353-8

Third World multinationals: Technology choice and employment generation in Nigeria (Working Paper No. 25)
by C.N.S. Nambudiri
ISBN 92-2-103386-4

Technological change, employment generation and multinationals: A case study of a foreign firm and a local multinational in India (Working Paper No. 27)
by Sanjaya Lall
ISBN 92-2-103425-9

Multinational enterprises, transfer of managerial know-how, technology choice and employment effects: A case study of Kenya (Working Paper No. 28)
by Irving Gershenberg
ISBN 92-2-103508-5

Decision-making studies

Decision-making in multinational enterprises: Concepts and research approaches (Working Paper No. 31)
by Michel Ghertman
ISBN 92-2-103831-9

Employment decision-making in multinational enterprises: Survey results from Belgium (Working Paper No. 32)
by Daniel Van Den Bulcke and Eric Halsberghe
ISBN 92-2-103832-7

Public multinational enterprises and strategic decision-making (Working Paper No. 34)
by Lucien Rapp
ISBN 92-2-103946-3
ISBN 92-2-203946-7 (French version)

Decision-making in foreign-owned multinational subsidiaries in the United Kingdom (Working Paper No. 35)
by Stephen Young, Neil Hood and James Hamill
ISBN 92-2-105016-6

Decision-making structures and processes in multinationals in Japan (Working Paper No. 36)
by Yasuo Kuwahara, The Japan Institute of Labour
ISBN 92-2-105119-6

Access to decision-makers in multinational and multi-plant enterprises: A review of labour law and practice (Working Paper No. 37)
by Roger Blanpain
ISBN 92-2-105120-X

A case study on decision-making in selected multinational enterprises in India (Working Paper No. 38)
by P.N. Agarwala
ISBN 92-2-105121-8

Decision-making regarding restructuring in multinational enterprises (Working Paper No. 39)
by Michel Ghertman
ISBN 92-2-105430-6
ISBN 92-2-205430-X (French version)

International divestment and restructuring decisions (with special reference to the motor industry) (Working Paper No. 40)
by Mark Casson
ISBN 92-2-105428-2

Decision-making structure in United States and Japanese manufacturing affiliates in the United Kingdom: some similarities and contrasts (Working Paper No. 41)
by John H. Dunning
ISBN 92-2-105429-2

Decision-making in joint ventures (Working Paper No. 45)
by Yoram Zeira and Oded Shenkar
ISBN 92-2-105691-0

Employment effects in EPZs*

Employment and multinationals in Asian export processing zones (Working Paper No. 26)
by R. Maex
ISBN 92-2-103404-6 (2nd impr. 1985)
ISBN 92-2-203404-X (French version)
ISBN 92-2-303404-3 (Spanish version)
ISSN 0285-9653 (Japanese version)

Employment effects of multinational enterprises in export processing zones in the Caribbean (Working Paper No. 42)
by Frank Long
ISBN 92-2-105520-5

Employment and multinational enterprises in export processing zones: The cases of Liberia and Ghana (Working Paper No. 30)
by George Botchie
ISBN 92-2-103770-3

Export processing zones in developing countries: Results of a new survey (Working Paper No. 43)
by Otto Kreye, Jürgen Heinrichs, Folker Fröbel
ISBN 92-2-105642-2

Las zonas francas industriales y las empresas multinacionales : Efectos económicos e impacto sobre el empleo en la República Dominicana (Documento de trabajo núm. 46)
por Francisco de Moya Espinal
ISBN 92-2-305725-6

Employment effects of exports by multinationals and of export processing zones in Brazil (Working Paper No. 47)
by Mario L. Possas, Joao E.P. Furtado and Enéas G. Carvalho
ISBN 92-2-105801-8

* The studies on Latin American and Caribbean countries were undertaken together with the United Nations Centre on Transnational Corporations (UNCTC).

Industrias de maquila, zonas procesadoras de exportación y empresas multinacionales en Costa Rica y El Salvador (Documento de trabajo núm. 48)
by Guillermo Pavez Hermosilla
ISBN 92-2-305841-4

La industria maquiladora en México (Documento de trabajo núm. 49)
por Mercedes Pedrero Nieto y Norma Saavedra
ISBN 92-2-305845-7

Multinational enterprises and employment in the Mauritian export processing zone (Working Paper No. 52)
by Catherine Hein
ISBN 92-2-106281-33

Indirect employment effects

The indirect employment effects of multinational enterprises in developing countries (Working Paper No. 3)
by Sanjaya Lall
ISBN 92-2-102280-3

Measuring the indirect employment effects of multinational enterprises: Some suggestions for a research framework (Working Paper No. 56)
by Nicolas Jéquier
ISBN 92-2-106846-3

Multinational enterprises and subcontracting industries in the Third World: A study of inter-industrial linkages (Working Paper No. 58)
by Axel Halbach
ISBN 92-2-107183-9

A study of the employment effects and other benefits of collaboration between multinational enterprises and small-scale enterprises (Working Paper No. 60)
by David L. Wright
ISBN 92-2-107483-8

Multinationales et effets indirects sur l'emploi dans les pays d'accueil: un cadre d'analyse (forthcoming)
by C. Dupuy and Julien Savary

BOOKS

Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (Geneva, ILO, 1977, 5th impr. 1985), 16 pages.
(Also available in French, Spanish, Arabic, German, Russian, Chinese, Danish, Dutch, Finnish, Italian, Japanese, Norwegian, Portuguese (and Brazilian version), Swedish, Thai and Turkish.)
ISBN 92-2-101896-2

Multinational enterprises: Information and consultation concerning their manpower plans (Geneva, ILO, 1985)
ISBN 92-2-105094-7
ISBN 92-2-205094-1 (French version)
ISBN 92-2-305094-4 (Spanish version)

Women workers in multinational enterprises in developing countries. A joint UNCTC/ILO contribution to the United Nations Decade for Women (Geneva, ILO, 1985), 119 pages.

ISBN 92-2-100532-1

ISBN 92-2-200532-5 (French version)

ISBN 92-2-300532-9 (Spanish version)

Safety and health practices of multinational enterprises (Geneva, ILO, 1984 2nd impr. 1986), 90 pages.

ISBN 92-2-103742-8

ISBN 92-2-203742-1 (French version)

ISBN 92-2-303742-5 (Spanish version)

Technology choice and employment generation in multinational enterprises in developing countries (Geneva, ILO, 1984), 77 pages.

ISBN 92-2-103718-5

ISBN 92-2-203718-9 (French version)

ISBN 92-2-303718-2 (Spanish version)

Social and labour practices of multinational enterprises in the textiles, clothing and footwear industries (Geneva, ILO, 1984), 184 pages.

ISBN 92-2-103882-3

Employment effects of multinational enterprises in developing countries (Geneva, ILO, 1981, 2nd impr. 1985), 118 pages.

ISBN 92-2-102864-X

ISBN 92-2-202864-3 (French version)

ISBN 92-2-302864-7 (Spanish version)

Employment effects of multinational enterprises in industrialised countries (Geneva, ILO, 1981, 2nd impr. 1985), 100 pages.

ISBN 92-2-102741-4

ISBN 92-2-202741-8 (French version)

ISBN 92-2-302741-1 (Spanish version)

Multinationals' training practices and development (Geneva, ILO, 1981), 138 pages.

ISBN 92-2-102569-1

ISBN 92-2-202569-5 (French version)

ISBN 92-2-302569-9 (Spanish version)

The economic and social effects of multinational enterprises in export processing zones A joint ILO/UNCTC study (Geneva, ILO, 1988), 169 pages.

ISBN 92-2-106194-9

ISBN 92-2-306194-6 (Spanish version)

Pratiques sociales des entreprises multinationales opérant dans le secteur des plantations (Genève, BIT, 1989), 118 pages.

ISBN 92-2-206519-0

Social and labour practices of multinationals in the food and drink industries (Geneva, ILO, 1989), 182 pages.

ISBN 92-2-106431-X

Multinational banks - prospects for the 1990s (forthcoming)

The Working Papers are now available on microfiche. Price: Sw.frs. 400; US\$ 228; (including a special binder with wallets permitting quick retrieval and systematic filing of microfiches). Standing orders for annual supplements are accepted.