Foreign investment and technology transfer in canada

Finance, Investment

The Canadian government has been in the forefront of offering significant inducements to draw FDI, with high expectations of technological spill over benefits. Technologyhere is defined as any material or non-material resource that can be used to generate economic gains for the local companies by, for example, improving on the production costs. In essence, FDI is practically perceived as a paramount channel that countries, including Canada, may use to benefit from technology transfer (Fetridge, 1991). Through FDI, technology transfer is made possible between foreign and local corporations as well as across national boundaries.

Theeducationlevel as well as the level of training in a country’s workforce determines how much it can benefit from technology transfer through foreign direct investment. To this extent, Canada has effectively been able to tap into the technology transfer as it has a well educated and well trained workforce. The country has also been able to benefit from the technology transfer presented by FDI due to its willingness to invest in Research and Development (R&D), and its capability of protecting intellectual property rights (Saggi, 1999).

In Canada, technological transfer and licensing of patent rights made possible through FDI have promoted the collaboration between the business andacademiccommunities. Removal of the legal hurdles in licensing agreements have made it virtually possible for raw technology to be turned into finished products, offered at competitive market rates. With the help of these multinationals through funding research and development and incubator programs, Canadian entrepreneurs are becoming world-class, thus further spurring economic growth.

Strategic alliances created through FDI in Canada have impacted positively on several high-tech industries in telecommunications, software engineering, agricultural and medical biotechnology (Graham & Spaulding, 2005). Through technological transfer necessitated by FDI, Canadian traditional firms have greatly benefited in know-how, management skills, machinery, and production techniques. These are important determinants of economic prosperity of any country. R&D is being conducted in the parent nations of these investor firms and transferred to Canada almost for free.

The Canadian government has also benefited in the importation of machinery and intermediate inputs and international movement of technical labour (Holden, 2007). Multinational corporations transfer their technical capabilities abroad in the hope of obtaining the greatest returns. A critic of whether FDI contributes to economic development would want to argue that these technologies are transferred to subsidiaries of the multinationals and therefore no other firm gains from the transfer.

But this argument is self-defeating in that the technologies are transferred to the locals who work for the firms and as such, the technology would spill into other firms. It is therefore a well recognized fact that foreign technologies and R&D brought about by FDI has helped boost economic productivity in Canada (Hejazi, 2002). However, attempts must be made to develop domestic R&D instead of relying overly on foreign based technologies.

According to one scholar, Canada's over reliance on foreign technology and R&D at the expense of homegrown technologies has brought about the sharp fall of Canada's R&D expenditure as a proportion of the country's GDP (Beauregard-Tellier, 2004; Hejazi, 2002). A major implication of this arrangement has been the noted replication of strategies due to constant usage of foreign R&D, therefore hindering innovation and the ability to compete in aggressive global markets. Therefore, a befittingobservationwould be for the government to promote domestic R&D research efforts, while at the same time encourage the transfer of foreign R&D through FDI.

This will reverse the huge technology gap between Canada and its trading nations, thereby spurring more economic posterity. Foreign direct investments and human capital formation in Canada In the world economy, Multinational corporations are important employers of labour. According to available figures, direct employment created by the MNC's had almost doubled, from 45 million people in the mid 1970's to over 75 million in the early 1990's in the whole world (Rao, Legault, & Ahmad, 1994).

Domestic employment within Canada has been greatly influenced by foreign direct investments through regional distribution of new employment, the types of jobs created, income distribution, wage levels, and skill transfer. The direct human capital effects created by the FDI are further complemented by spillover or indirect effects that take place through the exchange of skilled labour from foreign multinational to major sectors of the Canadian economy

(Amin, 2008). Canada has benefited from FDI in two levels – the short term and the long term level.

Read also our

narrative report for ojt business administration here.

In the short term level, the multinationals, brought as a result of FDI, interacts with the labour market in Canada through on-the-job training, payment of salaries to workers, and support for Canadian educational institutions. In the long-term level, the multinationals interact with the Canadian government by collectively contributing to the overall macro-economicenvironmentthrough raising the productivity of workers, paying taxes that are used to fund the education system therefore training more personnel, and also through the provision of a relatively stable source of foreign capital (Marette et al. , 2008).

In fact, FDI represent a prospect for small and medium sized enterprises in Canada to become more actively involved in international trading activities. But critics to the FDI in relation to human capital development in Canada have argued that jobs are only created to those who work for the multinational subsidiaries, without necessarily spilling over to the local firms. Though this is a genuine concern, it is untrue to say that FDI benefits the multinational subsidiaries when it comes to creation of jobs as the locals that are employed by the multinationals are able to support themselves and their families (Marette et al.

, 2008). The employees of the multinationals in their own investments have been able to offer employment opportunities to thousands of other local workers. FDI in Canada has offered a source of livelihood to thousands of permanent employees, self- employed persons, wage earners, and informal sector workers. Therefore, it is imperative to say that the role of FDI in creation of job opportunities in Canada can never be underestimated Overall, foreign subsidiaries, through the injection of FDI have had many beneficial impacts on the job market in Canada.

Such benefits can be summarized as the creation of job opportunities for the locals; benefits, wages and salaries offered to the workers; and the virtual permanence of the employment offered by the MNC’s over the economic cycle of the country (Amin, 2008). Foreign direct investment and international trade integration in Canada Financial analysts perceive investment and trade as mutually reinforcing channels of international activities. To this extent, FDI has been viewed as the correct tool to integrate the economy of the host nation with the global economy (Hejazi, 2002).

Through FDI, the trading activities and local Canadian enterprises have been brought into the international limelight. The world is moving towardsglobalization, and therefore FDI has enabled Canada to take a step in that direction. Before the inception of FDI in Canada, many Canadian enterprises were not known beyond the boundaries of the nation. But due to the FDI influence on world’s trading activities, many home-grown enterprises has become worldwide household names, thereby enlarging their scope and might in the world trading markets (Amin, 2008).

This has translated into better fortunes for the enterprises as they have been able to integrate fully into international trading patterns. This has increased economic development of the nation. In fact, FDI represents a prospect for small and medium-sized enterprises in Canada to become more actively involved in international trading activities. However, the critics of this function of FDI to Canada have been quick to point that instead of integrating the home-grown enterprises into the world markets, multinationals have taken over the management of Canadian firms (Hejazi, 2002).

This is true when it is viewed on the perspective of what such an interaction can be able to achieve on short-term or medium-term basis. But on long-term basis, the association has enabled the home-grown enterprises to integrate into international trade, thereby spurring economic development. Foreign direct investment and competition in Canada FDI has been credited with spurring economic growth in Canada through increasing domestic competition. This have had a multi-prier effect in that it has lowered costs, raised productivity, and improved efficiency of resource allocation.

A competitive economic environment is a recipe for economic growth for any nation, Canada included. Due to the competitive nature of Canada's market economy, FDI has been instrumental in creating linkages to the Canadian economy, bringing and disseminating into it, new state of the art know-how and technology, and focusing more on the export market than the local market. This has crippled the multinationals' ability to crowd-out domestic markets or repatriate abnormal profits from Canada (Amin, 2008).

Critics have however felt that uncompetitive domestic firms have collapsed in the hands of FDI in Canada, and therefore cannot in anyway be helping competition. Through FDI, the multinationals has effectively been able to put barriers to the entry of Canadian small and medium-sized enterprises by operating at a larger scale than local firms. This coupled with the multinationals' ability to compete through non-price rivalry such as product differentiation and advertising has had a profound effect on the Canadian market structure, thereby affecting the economic posterity of local firms (Beauregard-Tellier, 2004).

To this extent, I can agree to the assertion that FDI indeed derail the economic development of Canada by offering unfair competition to home-grown industries. In addition, local enterprises are at a disadvantage over their MNC subsidiaries due to lack of adequate knowledge of brand-name sensitive enterprises, lack of international reputation, and lack of global technological might. In this perspective, it can be effectively argued that FDI has indeed presented some bottlenecks in some local Canadian enterprises through offering unfair competition (Amin, 2008). But this is as far as it goes.

The overall picture is that FDI has indeed made the local business environment to be productive, therefore spurring economic development. Foreign direct investment and enterprise development in Canada Foreign direct investment has contributed to the local enterprise development through improving efficiency, exploiting synergies, developing new activities, reducing costs, and its commitment to restructure enterprises (Amin, 2008). It should be noted that the majority of FDI in Canada is made up of equipments, buildings, fixtures, and machinery, mostly accomplished through new startups, mergers, or acquisitions.

These have benefited the economy of Canada through enterprise development. New ideas, previously held by individuals in their minds have been put into successful business concepts, thanks to the FDI. Local enterprises that were not performing well for some reason have found new strength in the form of partnerships and mergers been offered through FDI. Foreign direct investment and social/ environmental concerns in Canada In any country, economic development is often tied to the political, environmental and social concerns.

Countries that have great economic development at the expense of the environment have been reprimanded by international law. FDI in nearly all the countries around the world has had both positive and negative environmental impacts. Canada is no exception. Due to adequate environmental regulations and policies, Canada has had the luck of benefiting from newer technologies that has been transferred through FDI. These technologies tend to be more modern and cleaner, thereby spurring economic development (Amin, 2008).

There is also ample evidence to show that FDI has been used in Canada to improve the social conditions of its citizens through offering higher incomes. Evaluation of the role of FDI in Canada's economic development This paper has revealed beyond reproach that FDI continues to play a positive and significant role in the economic development of Canada. Through direct investments, the operations of foreign subsidiaries in Canada continue to directly and indirectly impact on the economicdevelopment of the countryas a whole.

All available research has revealed that FDI in Canada assists human capital formation, stimulates innovation, strengthens international trade integration, enhances enterprise development, contributes to productivity-enhancing investment in equipment and machinery, and helps create a more competitive business environment (Amin, 2008). All these have contributed to better productivity performance and higher economic growth in Canada. Beyond the economic development witnessed in Canada, foreign direct investment has also supported other development agendas in the social scene.

For example, FDI has provided a mechanism to pursue other socially desirable intentions that Canadians value by the very fact of raising the wealth status and living standards of Canadians (Amin, 2008). Resources that can be channeled to raising the quality of education and improvinghealthcare have been made available through improved productivity performance and faster economic growth brought forward by FDI. Indeed, FDI has also accelerated the use of cleaner technologies of production in Canada, therefore helping to improve environmental conditions.

All these are intertwined with the economic development of a nation. Canada therefore stands to benefit economically by encouraging FDI. Foreign subsidiaries make an important contribution to crucial areas of the economy in Canada because they tend to internalize a global outlook, coupled with a global focus. This is a real plus for them because they are able to utilize world markets other than the domestic markets in which they operate in. Inward FDI in Canada has therefore helped to develop export growth by influencing domestic operations to take on a more worldwide business outlook (Beauregard-Tellier, 2004).

This is good for the economic development of the nation. More pleasantly, FDI has become a crucial source of productive capital in Canada, therefore fuelling more economic growth. For example, the increase in physical capital, particularly equipment and machinery is commonly considered as a major driver of labor productivity in Canada. This is because such investments provide a channel for diffusion of technology owing to their embodiment of the latest technologies. This has been of great benefit to the manufacturing sector in Canada (Amin, 2008).

Conclusion Through improving trade linkages, creation of employment, technology transfer, increasing competition, and enterprise development, foreign direct investment have been influential in allowing Canadian enterprises to be more effective and efficient, thereby contributing to the overall economic development of the whole nation. Through careful analysis of data on Canadian FDI, it can be revealed that more Canadian companies are hunting for economic opportunities abroad.

This shows a growing maturity and vitality on the part of the enterprises in sharing the knowledge that FDI is crucial to their financial and economic development (Beauregard-Tellier, 2004). Canada has benefited a lot economically from the inward FDI and capital transfer. This is because the country lacked the appropriate technologies and capital necessary to utilize the rich natural resources located within its boundaries. FDI has solved all that by bringing in machinery and equipment capable of utilizing the huge endowment of natural resources for the economic benefit of all Canadians. References Amin, P. (2008).

Foreign direct investment: A comparative analysis of Canada and India. Retrieved November 27 2008, from http://www. indianmba. com/Faculty_Column/FC823/fc823. html Beauregard-Tellier, F. (2004). Canadian direct investment: Recent trends. Economics division. Retrieved November 27 2008, from http://www. parl. gc. ca/information/library/PRBpubs/prb0335-e. htm Graham, J. P. , & Spaulding, R. B. (2005). Understanding foreign direct investment. JPG Consulting. Retrieved November 27 2008, from http://www. going-global. com/articles/understanding_foreign_direct_investment. htm Hejazi, W. (2002). " Foreign direct investment in Canada.

" Management and economic review. UTSC. Retrieved November 27 2008, from http://www. utsc. utoronto. ca/~mgmt/journal/vol1no2/hejazi. html Holden, M. (2007). The foreign direct investment review process in Canada and other countries. Retrieved November 27 2008, from http://www. parl. gc. ca/information/library/PRBpubs/prb0713-e. htm Marette, M. , Papadaki, E. , Hernandez, J. , & Lan, U. (2008). Foreign direct investment liberalization between Canada and the USA: A CGE investigation. BNET. Retrieved November 27 2008, from http://findarticles.

com/p/articles/mi_hb6413/is_2_36/ai_n29448720 Mickiewicz, T. , Radosevic, S. , & Varblane