12-118

Economic Development
Indonesia
Doc. Control Rm. No. C/54-20
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October 21, 1954

ENCOURAGEMENT OF FOREIGN INVESTMENT IN INDONESIA

SUPPLEMENT II

THE REPORT OF THE CANADIAN ADVISORY COMMITTEE ON OVERSEAS INVESTMENT

The origin of the Canadian Advisory Committee on Overseas Investment is described by the Minister of Finance in the foreword of their report:

> At the Tripartite Discussions held in Washington in September, 1949, the representatives of the United States, the United Kingdom and Canada reached the conclusion that a high level of North American investment in overseas countries, both public and private, could make an important contribution toward reducing the sterling-dollar disequilibrium. The three governments agreed that every aspect of this constructive approach to a problem of common concern should be explored. In line with the recommendation at the September talks, a Canadian Advisory Committee on Overseas Investment was established last April under the chairmanship of Mr. Gordon Ball. The Canadian Committee maintained throughout close liaison with the President's Committee for Financing Foreign Trade (The American Committee) headed by Mr. Winthrop W. Aldrich. The report of the Canadian Committee, which is presented here, was submitted to the Government on September 19th, 1950.

While the contribution of Canadian foreign investment to the solution of the sterling problem was the major interest of the Committee, they also had in mind the need of underdeveloped areas for foreign capital. Many of the questions in the questionnaire were slanted towards special problems in underdeveloped areas. The countries covered by the questionnaire included most of those in Asia and Southeast Asia, Latin America, Africa, and the Middle East, which are usually classified as underdeveloped.

Major Conclusions

The findings of the Committee, as presented in their report, lead to a number of conclusions significant for underdeveloped areas, including Indonesia, which was one of the countries in which Canadian firms replying to the questionnaire expressed an interest.

1. One significant fact is that Canada, the country with the second highest *per capita* income in the world, and the one which is apparently the most rapidly advancing, has been a net importer of capital since the war (Table I). In discussions regarding possibilities of attracting foreign capital, the governments of underdeveloped countries frequently overlook the important fact that the United States is the *only* country in the world which has been a large-scale net exporter of capital since the war, and which can be expected to be so in the next decade. This fact does not mean, of course, that underdeveloped countries must seek foreign capital only in the United States. Capital will be available from other countries, including Canada, for investment in particular enterprises in which the businessmen of other countries have a particular interest or knowledge. It does mean, however, that meeting the capital requirements of underdeveloped countries as a whole will be possible, without aggravating the dollar shortage in other countries, only if the total flow of United States dollars for investment purposes is increased.

2. Most of Canadian foreign investment is made in highly industrialized countries, rather than in underdeveloped countries (Table II). At the end of 1949, Canadians had total investments abroad of $3.5 billion, of which $1.5 billion were in the United Kingdom, and $1.1 billion in the United States. The same general picture holds for the United States. That is, even to the extent that capital is available for investment abroad, the underdeveloped countries will be competing against highly industrialized countries for this scarce capital, and will have to overcome the established practice of most investors of seeking assets in the United States and Europe rather than in less-well-known countries.

3. Moreover, the foreign investment of Canadians was almost entirely direct investment, and only to a very minor extent portfolio investment. Of the total foreign assets of Canadians at the end of 1949, only $195 million were in stocks and bonds; the remaining investments outside the United States, about $500 million, were all direct investments. For the most part, these direct investments were made either for the purpose of providing outlets for the products of Canadian companies, or to provide a source of supply for Canadian companies (Table IV). In other words, such capital as underdeveloped countries is able to attract, is likely to consist mainly of investment in fields of industry in which the foreign companies are already active, and is likely to take the form of direct investment rather than portfolio investment.

4. Government policies towards foreign investment are a relatively unimportant factor in limiting Canadian foreign investment. Of much greater importance than the actual government

policies regarding foreign investment are such things as labour problems, foreign exchange controls, and retarded economic development.(Table IV). In the "special arrangement countries", labour problems and foreign exchange controls are by far the most serious problems in the view of actual or potential Canadian investors. In Asia and Oceania, however, retarded economic development is considered just as serious a barrier to investment as labour problems and foreign exchange controls; but here too, government policies towards foreign investment are of minor significance (Table V).

For mining, which is a field into which Indonesia might hope to attract Canadian capital, retarded economic development ranks highest among the problems listed in the questionnaire. Labour problems are second, and foreign exchange controls third. In the field of manufacturing, on the other hand, foreign exchange controls rank first, labour problems second, and retarded economic development third.

The lesson to be learned from this analysis is that Indonesia, and other countries in Asia, cannot hope to attract significant quantities of Canadian capital merely by legislating attractive regulations covering foreign investment. More important will be the settlement of labour problems, release from irksome foreign exchange controls, security, political stability, and the like. There can be little doubt that the attitude of Canadian investors in this regard is typical of foreign investors in general. In some fields of investment, however, such as mining, the provision of transport facilities, housing, and other community facilities, may provide a significant stimulus to foreign investment.

5. The Committee considered it worthwhile to quote at some length a commentary by one company with an interest in numerous overseas countries, as typical of the attitude of Canadian investors with respect to labour problems:

"(a) One of the principal difficulties met by us when considering making investments overseas is getting competent personnel, who know our methods and way of doing business, to go to these foreign countries to watch over such investments or, in the case of a ....plant, if necessary, to actually operate or assist in its management to ensure that it is successful.

"(b) Prior to the war there was not too much difficulty in getting personnel to go abroad. While there were the same physical drawbacks that exist today, the final return to the individual was much higher. In the backward and undeveloped areas where investment is most needed there were few if any taxes. It was possible to make large personal savings. The individual enjoyed a good standard of living at a very low cost.

"(c) Since the war all this has changed. Today the Canadian going abroad has to pay as high if not higher income taxes than he would have paid had he stayed at home. He saves little if any money, and because the cost of living has in most places increased to the point where it is higher than in Canada, the great drawback is that it is no longer possible to enjoy the previous high standard of living. In addition, there is the deterrent of foreign exchange control. An employee is dissatisfied if he earns and perhaps saves an amount of sterling and finds on his return to Canada or the United States that it is blocked and frozen in his former place of work. Canadian personnel serving abroad also require foreign exchange to educate their children in Canada and to meet Canadian commitments, such as insurance policies, etc.

"(d) We are not anxious to invest moneys abroad unless we can have them accompanied by the minimum number of staff drawn from our world-wide organization to protect our investment. They may be Canadians, Americans, Swiss or any one of several nationalities. From our point of view the personnel angle is a very important phase in this whole problem of overseas investment." (pp. 36-37)

6. The Committee also quotes another company with respect to the importance of political stability as a prerequisite for a flow of Canadian capital:

The threat of Soviet domination is felt in many parts of the world, and one company sums up the situation as follows:

"Political Instability and the 'Cold War'

"(a) The continuance of political unrest in many areas and the spreading influence of Soviet Communism restrict the overseas areas attractive to investment by Canadian firms.

"(b) In many areas, such as Africa, the West Indies, the East Indies and Southeast Asia, there is an understandable but growing ferment in favour of self-government and universal suffrage. Undesirable types of trade unionism are being actively fomented among illiterate workers often by irresponsible labour leaders. The pattern of political institutions and political morality that will eventually emerge is far from clear. This is an additional risk that must be faced in placing investments in such areas.

"(c) Other areas of the world, notably Central Europe and the Far East, are now either behind the Iron Curtain or dangerously close to it and are no longer possibilities for foreign investment." (p. 41)

7. In their conclusions, the Committee makes several comments worthy of repetition.

> ....It is perhaps paradoxical but nevertheless true that one of the greatest inducements that can be offered for the attraction of new capital and the voluntary retention of capital already established is the absence or removal of all restrictions on withdrawal. (p. 64).... One deterrent feature that arises out of nearly all the problems discussed in this report is the cumulative labour, expense and loss of time involved in complying with regulations and seeking interpretations thereof, and completing complex forms, in obtaining permits and visas, and in calculating and filing complicated tax returns. (p. 66)

However, as a final conclusion the Committee states,

> ....Despite the domestic demands for Canadian capital there appears to be a sizeable volume of capital seeking outlets overseas for specialized direct investment purposes, and the impression is gained that any reasonable relaxation of existing obstacles and restrictions would be sufficient to encourage a further outward flow. (p. 66)

Thus while the attraction of capital from countries such as Canada will not be easy, it is by no means impossible. However, it will probably be easiest to attract capital into fields in which Canadian enterprise is already active (such as mining, pulp and paper, chemicals, agricultural machinery), and some improvement in labour and security conditions, as well as generous regulations, may prove necessary.

TABLE I: CANADIAN CAPITAL MOVEMENTS, 1926-1949

($ millions)

--	Non-Resident Investment in Canada	Canadian Investment Abroad		
		Direct and Portfolio Investment	Governmental Credits	Total
1926	6,002	890	36	926
1939	6,913	1,390	31	1,421
1947	7,175	1,401	1,816	3,217
1949	7,977	1,531	2,000	3,531

(Note: Excluded from the estimates of Canadian investments abroad are official holdings of gold and foreign exchange, and external assets of Canadian banks and insurance companies which are regarded as offsets to the external liabilities of these concerns.)

TABLE II: GEOGRAPHIC DISTRIBUTION OF CANADIAN INVESTMENT

	As at Dec. 31, 1949			
	United States	United Kingdom	Other Countries	Total
	(Millions of Canadian dollars)			
Investment in Canada	5,890	1,752	335	7,977
Canadian Investment Abroad:				
Special Government Credits	—	1,434	566	2,000
Direct, Portfolio and Miscellaneous	1,133	100	298	1,531
Total Investment Abroad*	1,133	1,534	864	3,531
Net Investment in Canada	4,757	218	- 529	4,446

*Subject to same exclusions as in table above.

TABLE III: APPARENT MOTIVE FOR INVESTING

Nature of Venture	Number of Ventures	Source of Supply for Canadian Companies	Distribution of Canadian Production	Other
Manufacturing	47	3	24	20
Mining	30	16	......	14
Trade	20	......	17	3
Transportation	6	5	......	1
Other Public Utilities	7	......	......	7
Other	9	1	3	5
Total	119	25	44	50

TABLE IV: PROBLEMS IN OVERSEAS COUNTRIES

(distributed according to nature of problem, and showing the relative incidence of problems per 100 ventures)

Nature of Problem	Number of Problems Incorporated in Questionnaire	Number of Times Reported	Incidence per 100 Ventures
1. Retarded Economic Development	6	103	87
2. Attitude of Government and Labour:			
(a) Labour problems	8	154	129
(b) Other factors (political, etc.)	5	64	54
	13	218	183
3. Problems Arising Directly from Governmental Action, etc.:			
(a) Foreign exchange controls	4	136	114
(b) Tariff factors	4	71	60
(c) Tax problems	4	30	25
(d) Government policies toward foreign investment	5	26	22
	17	263	221
All Problems	36	584	491

Number of ventures used in compiling this table: 119.

TABLE V: PROBLEMS IN OVERSEAS COUNTRIES

Incidence of Problems per 100 Ventures by Principal Geographical Areas

	Incidence per 100 Ventures				
Nature of Problem	South and Central America, West Indies and Bermuda	Africa	Europe (incl. United Kingdom)	Asia and Oceania	All Areas
1. Retarded Economic Development	149	133	14	133	87
2. Attitude of Government and Labour:					
(a) Labour problems	203	192	63	133	129
(b) Other factors (political, etc.)	46	67	53	62	54
	249	259	116	195	183
3. Problems arising directly from Government Action, etc.:					
(a) Foreign exchange controls	134	108	94	133	114
(b) Tariff factors	77	58	41	76	60
(c) Tax problems	37	8	21	24	25
(d) Government policies toward foreign investment	23	25	16	33	22
	271	199	172	266	221
All Problems	669	591	302	594	491

Number of ventures used in compiling this Table:

South and Central America, West Indies and Bermuda	35
Africa	12
Europe (including United Kingdom)	51
Asia and Oceania	21
Total	119