

# Study: Multinationals and the process of reallocation: The changing importance of multinationals and their impact on productivity growth in the Canadian manufacturing sector

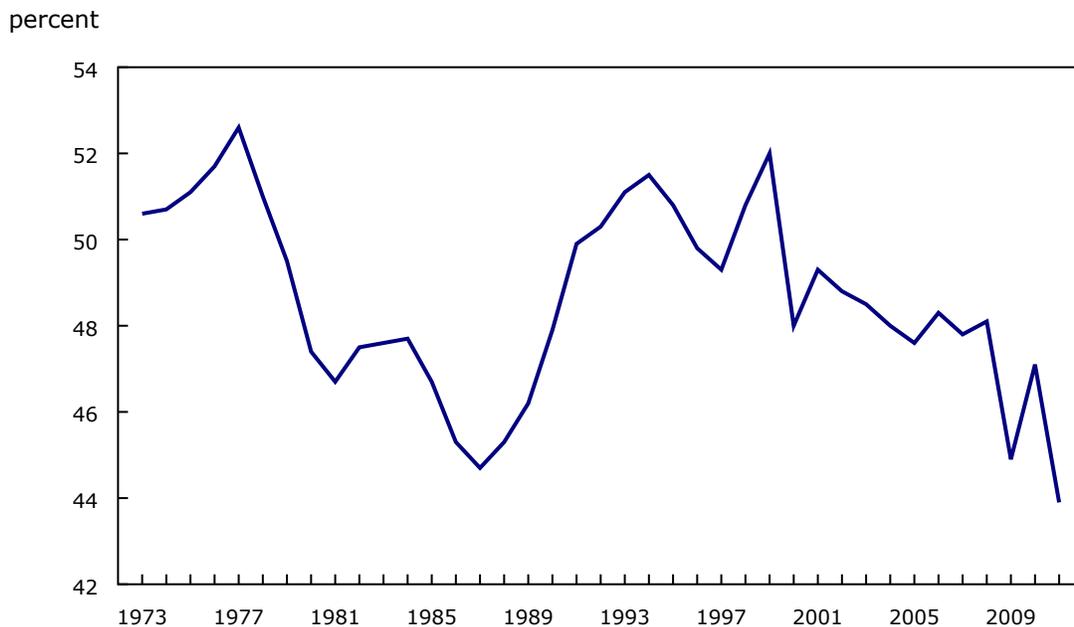
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Historically, foreign multinationals have had an important presence in the Canadian manufacturing sector. Previous Statistics Canada studies have shown that foreign multinationals had made substantial investments in innovation, advanced technology and skilled labour. These investments translated into higher levels and growth rates of productivity for foreign multinationals relative to their Canadian counterparts in manufacturing.

Two new studies released today extend the results of previous studies to the 2000s, focusing on how the challenges facing the Canadian manufacturing sector in the post-2000 period affected productivity growth. The studies are based on new linked data from the Annual Survey of Manufacturing and administrative data. Results will be updated for more recent years as new data is incorporated.

The first study, "The Changing Importance of Foreign Control in Canadian Manufacturing," finds that the foreign-controlled share of nominal Canadian manufacturing output declined significantly in the post-2000 period, reaching about 44% in 2011, the lowest since 1973.

**Chart 1**  
**Foreign-controlled market share of nominal manufacturing output, 1973 to 2011**



Source(s): Statistics Canada, authors' calculations using the Annual Survey of Manufacturing database.



In the post-2000 period, most manufacturing industries experienced declines in their foreign-controlled market share. Between the 1997-to-1999 and the 2009-to-2011 periods, the largest declines were in textiles, leather and apparel (-48.1%) and miscellaneous manufacturing (-34.7%), both of which are labour-intensive industries. Primary metals and paper industries, industries where economies of scale and the use of raw materials are important, were the only two industries to experience increases. The foreign-controlled market share increased by more than 10% in both of these industries.

The increase in the industry share of nominal manufacturing output for petroleum, coal and chemicals from 11.4% to 21.4% over this period also played a role in moderating the overall decline in foreign ownership in manufacturing.

The second study, "Multinationals and the Process of Reallocation: Productivity Growth in the Manufacturing Sector," examines the role of foreign multinationals and the process of restructuring in explaining the weaker productivity growth in the post-2000 period, particularly the 2006-to-2010 period when labour productivity growth was weakest. It examines the impact of reallocation across firms in different industries within the manufacturing sector, between firms in the same industry, and between domestically-controlled and foreign-controlled entrants and exits.

The analysis reveals that the intensity of restructuring in the Canadian manufacturing sector increased after 2006, and that the exit of large and productive foreign-multinationals was one notable factor in the increased intensity.

Overall, industry restructuring had offsetting positive and negative impacts on manufacturing labour productivity growth during the post-2000 period. The exit of large and productive foreign-controlled enterprises contributed 0.5 percentage points to the 1.3 percentage point decline in overall manufacturing labour productivity growth. Reallocation of resources between firms within the same manufacturing industry also contributed to the decline. Offsetting these negative effects were positive contributions from the birth of new, more productive, domestically-controlled enterprises and the reallocation of resources between firms in different industries.

#### Note to readers

The release is based on microdata from the Annual Survey of Manufacturing and administrative data. Secure access to these microdata for analytical research is available through the [Canadian Centre for Data Development and Economic Research](#).

The new studies, [The Changing Importance of Foreign Control in Canadian Manufacturing, 1973 to 2011](#), and [Multinationals and Reallocation: Productivity Growth in the Canadian Manufacturing Sector](#), part of the *Analytical Studies Branch Research Paper Series (11F0019M)*, are now available.

Related studies on the evolution of real output in the manufacturing sector, [Real Growth of Canadian Manufacturing Since 2000](#), and on the historical contribution of foreign multinationals to the Canadian manufacturing sector, [Global Links: Multinationals in Canada: An Overview of Research at Statistics Canada](#), are also available on our website.

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