

**The Economist's Seventh Annual Innovation Awards Ceremony and Summit**

**Collaborative innovation: A new approach to new ideas**

Register now ►



**Economist Conferences**

Awards Ceremony, October 30th 2008, The Science Museum, London

Half-day Summit, October 31st 2008, The Landmark Hotel, London

Economist.com

WORLD  
**THE AMERICAS****Foreign investment in Canada****Lie back and forget the maple leaf**

Apr 3rd 2008 | OTTAWA

From The Economist print edition

NASA

**Contrary to the fears of many Canadians, foreign takeovers are a sign of economic success, not failure**

THE timing was embarrassing. On March 11th Jim Prentice, Canada's industry minister, went to Cape Canaveral to boast of his country's prowess in the space industry. He watched the launch of a space shuttle carrying robotic fingers for the retractable arm attached to the International Space Station, just as the shareholders of MacDonald, Dettwiler and Associates (MDA), the Canadian firm which designs and builds the fingers, the arm and some highly sophisticated satellites, voted to sell these businesses to Alliant Techsystems, an American defence company.

The news has prompted much handwringing. That is partly because of the nature of the firm's business: its iconic Canadarm has been used by the shuttle since 1981, and some Canadians worry that foreign ownership of its satellites, which keep an eye on the Arctic and the coasts and were developed partly with public subsidy, would threaten national security.

More broadly, the sale plays on a growing fear that Canadian industry is being hollowed out and that many emblematic firms are being sold to foreigners. Such fears are hardly unique to Canada. But Canadians perennially fear becoming a branch office for their mighty neighbour to the south. In fact, a string of recent takeovers has mainly featured investors from further afield. Two mining giants, Falconbridge and Inco, were bought respectively by Xstrata, a Swiss firm, and Brazil's Vale, each for close to C\$20 billion (\$20 billion). Rio Tinto, an Anglo-Australian firm, took over Alcan, an aluminium producer, for twice that figure. Saudi investors joined with Americans to snap up Four Seasons and Fairmont, two posh hotel chains.

Less noticed was that Canadian firms gave almost as good as they got. Thomson, a media group, bought Reuters (for C\$19 billion) while TD Bank bought Commerce Bancorp, an American bank, for C\$8.5 billion. Canadian investors purchased 508 foreign firms last year, compared with 192 acquisitions made by

foreigners in Canada, according to Crosbie & Company, which tracks mergers and acquisitions. Still, for the first time in 13 years, the number of deals worth more than C\$1 billion that involved foreign takeovers of Canadian companies was greater than those in which Canadians bought firms abroad. Similarly, the total value of foreign takeovers of Canadian firms was around twice that of foreign purchases by Canadians.

The boom in foreign acquisitions seems to be waning, thanks to the credit crunch and the strength of the Canadian dollar. But not before it has percolated into the collective consciousness. A poll last year by The Strategic Counsel, a market-research firm, found that almost 70% of those surveyed were concerned about foreign ownership of Canadian companies and more than half wanted limits imposed. "There's a sense of malaise that these icons are leaving and they won't come back," says Peter Donolo of The Strategic Counsel.

This is particularly acute in the case of MDA. Alliant has promised to continue the company's operations in Canada and to leave the maple-leaf flag on the Canadarm. But unlike a mine or a hotel, technology and engineers can be moved.

Hugh Thompson, a spacecraft engineer at MDA, told a parliamentary committee last month that he believed that Alliant wanted his firm's satellite technology in order to win classified defence work in the United States on which only Americans can work. Speaking to the same committee, Steven Staples of the Rideau Institute, a left-wing think-tank in Ottawa, argued that "the loss of technology and scientists, if we sell off this system, will be felt for generations." Not so, says Daniel Friedmann, the boss of MDA. He insists that concerns over job losses and sovereignty are groundless.

The Conservative government has ignored calls for curbs on foreign investment. Stephen Harper, the prime minister, says that he does not want to "micromanage" international investment flows and pick which transactions to allow. However, he has appointed a committee, which is due to report in June, to look at competition and investment laws and to consider whether to insert a new national-security test, as in the United States.

Many business groups support Mr Harper's stance. Report after report has found no evidence that corporate Canada is being hollowed out. Openness to foreign investment has brought many benefits. Far from losing head-office jobs, always the fear in foreign takeovers, Canada has steadily gained them. More than three times as many Canadian companies rank in the world top five in their industry as did 20 years ago. Foreign investors spend more on research and development in Canada than do local firms.

The Conference Board of Canada, a business group, recently noted a stark contrast between most economists, who think Canada needs even more foreign investment, and most voters, who want less. It is this divide that Mr Prentice, the industry minister, must cope with as he muses on the MDA sale. As with any foreign takeover worth more than C\$295m, he has to rule whether it is of "net benefit" to Canada. Awkwardly, he must decide before the committee reports. It will be a test of whether the government puts political reflexes ahead of economic principles.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.