



FOREIGN INVESTMENT REVIEW REGIMES

HOW CANADA STACKS UP

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Setting the Stage

- Global FDI inflows expected to reach record \$1.5 trillion in 2007
- In 2006 there were 172 mega-deals worth \$1-billion or more
- There are 32 active SWFs in 29 countries with 10 new funds created since 2000



The new 'bogeyman'

Sovereign Wealth Funds

- SWFs assets are estimated to be worth \$2.5-\$3-trillion, accounting for 1.3-2% of world's stock of financial assets
- The 'Super Seven' SWFs are worth an estimated \$2.3-trillion
- By 2015 SWFs expected to grow to \$12-trillion, equivalent to 5% of global financial wealth



The Super Seven SWF's

Fund	Assets (\$ billion)
Abu Dhabi Investment Authority	\$875
Norway Government Pension Fund	\$380
Government of Singapore Investment Fund	\$330
Kuwait Future Generations Fund	\$250
China Investment Corp	\$200
Stabilization Fund of the Russian Federation	\$128
Temasek Holdings (Singapore)	\$159

Sources: Morgan Stanley & Standard Chartered Bank.



What does it mean for Canada?

- In 2006, Canada raked in a record US\$69-billion in FDI, ranking it fourth among OECD countries behind only the U.S., U.K. and France
- 455 Canadian companies worth US\$137-billion bought out between 2001-2006, making Canada the world's second most popular destination for foreign takeovers
- In 2007 state-owned Abu Dhabi National Energy Co. bought three oil sands players for a combined \$7.5-billion



The Protectionist Backlash

- In 2005, 93 countries made changes related to foreign investment, with 20 per cent ranked “less favorable” – the highest ever recorded
- France passed new anti-takeover poison pill legislation and a decree identifying 11 strategic sectors requiring ministerial approval for foreign investment.
- Germany drawing up a draft law to screen foreign takeovers of the country’s corporate champions.
- US passed the Foreign Investment and National Security Act of 2007

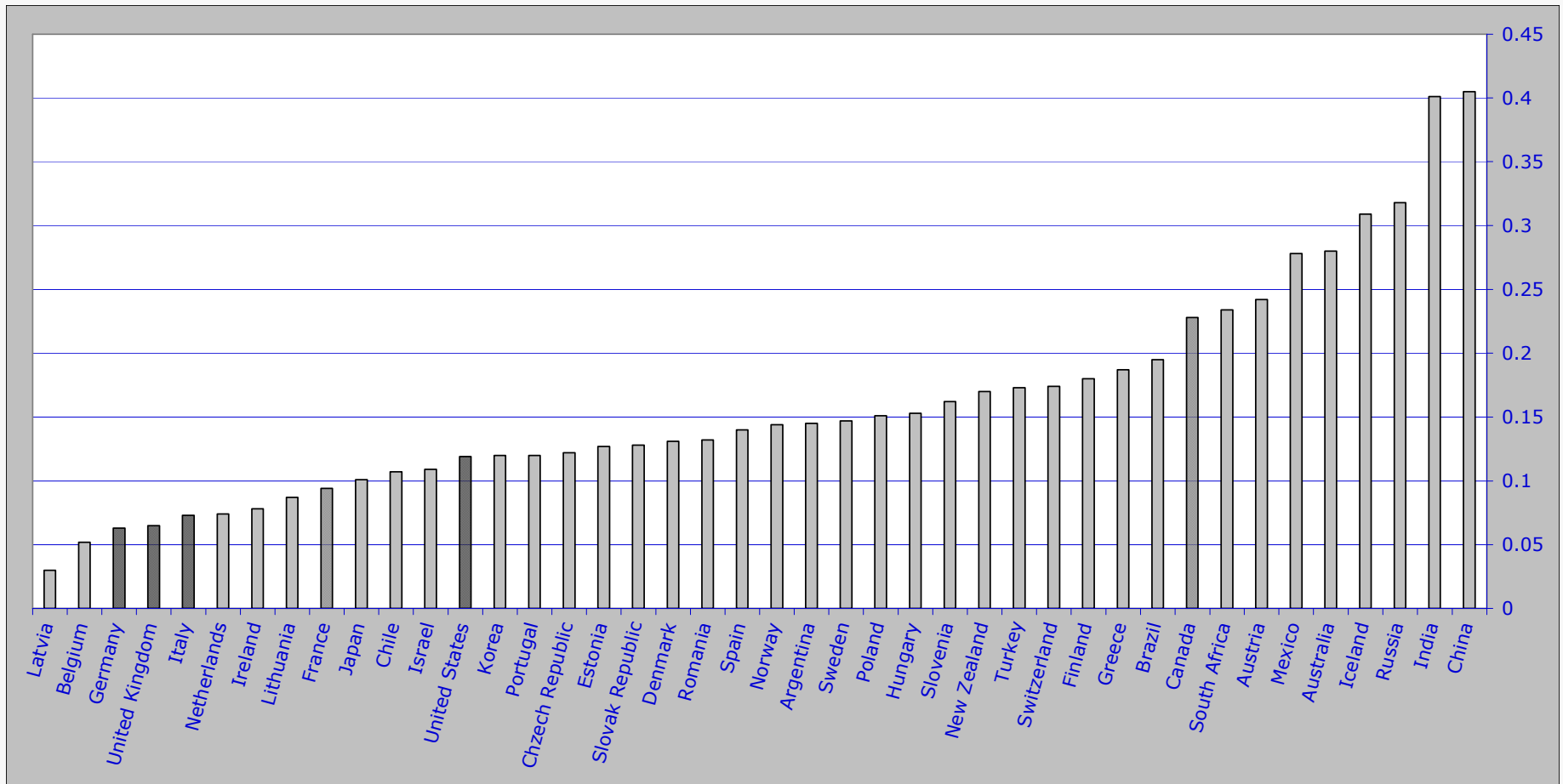


How should Canada respond?

- There are legitimate ‘hollowing out’ concerns
- Canada ranked 46th of 73 countries in terms of attracting FDI between 2001-2005 when FDI is measured as percentage of GDP
- In 2006 Canada ranked 71st in terms of its performance relative to its potential for attracting FDI



Regulatory Restrictiveness



Source: OECD.



Protectionism in principle and practice

- OECD rankings heavily weighted toward overt, explicit foreign investment screening requirements
- Opaque barriers and practices predominant in continental Europe given minimal weight or not considered
- Political interference in the engineering of national champions appears par for the course in Europe



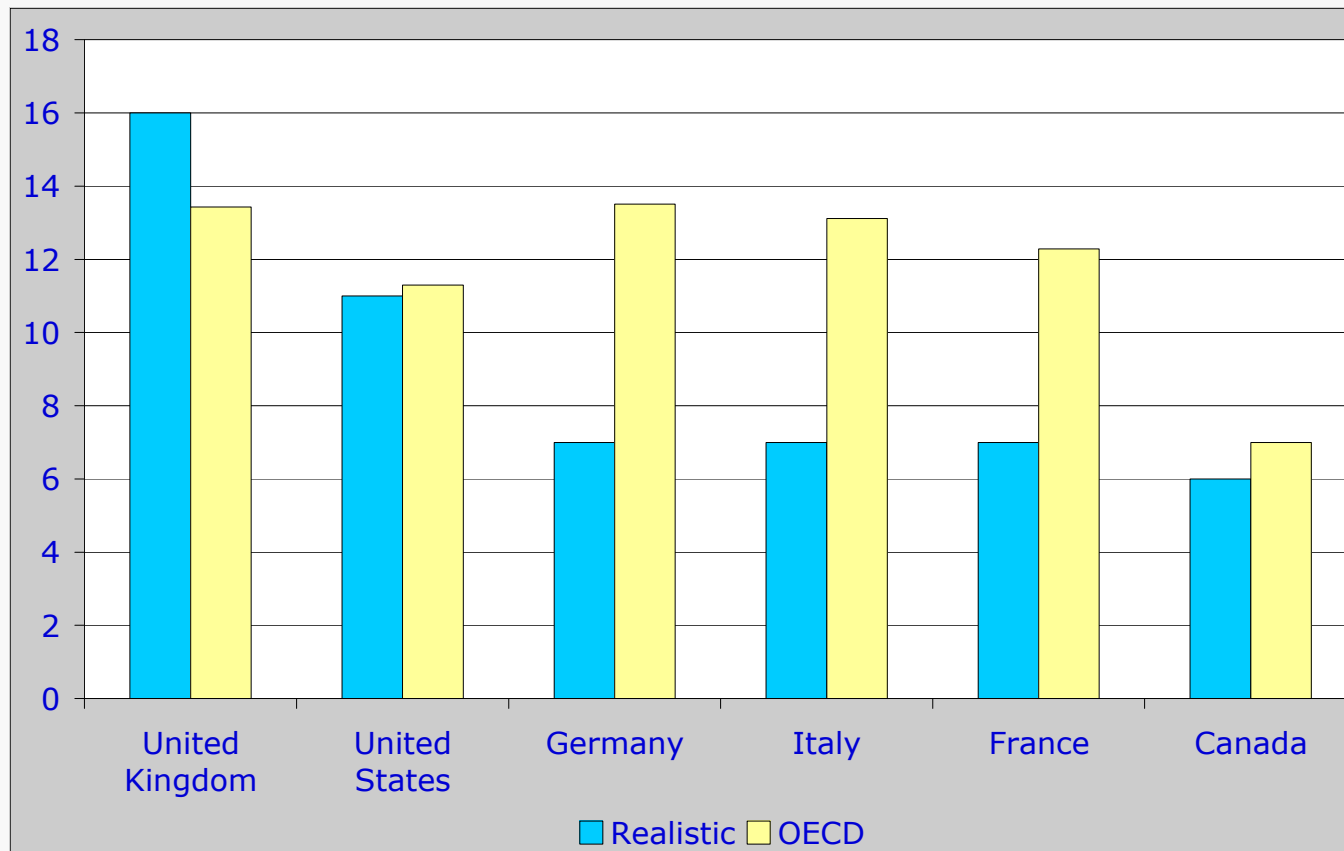
Banking in principle and practice

	Principle	Practice
Canada	yes	partial
France	yes	partial
Germany	yes	partial
Italy	yes	partial
UK	yes	yes
US	yes	yes

Source: .



A more realistic ranking of FDI openness



Source: Author



The FDI openness continuum

- The FDI review regimes fall along a continuum ranging from the UK's 'light touch' approach to regulation to France's 'economic patriotism'
- The UK has chosen to play host to headquarters of global companies – 'the Wimbledon effect'
- France protects its champions



What should Canada do?

- An un-level international playing field
- Hollowing out concerns
- Canadian has failed to become the ‘Gateway to North America’ (a la UK)
- Unlike France, Canada’s national champions are not very globally oriented



Is reciprocity the answer?

- Many Canadian companies shielded from foreign takeover have made acquisitions abroad
- Brookfield Asset Management, which has vast holdings in Brazil, has a dual class share structure making hostile takeover extremely difficult
- Canadian efforts to obtain investment protection undermined
- Canada has some SWFs of its own



Are foreign investment limitations a ‘net benefit’ to Canada?

- Raises the cost of capital
- More costly to consumers
- Dampens innovation
- Discourages mergers of ‘national champions’



The real ‘national interest’

- Avoid tit-for-tat protectionism
- Create competitive conditions that optimize both inbound and outbound FDI
- Further liberalize foreign investment restrictions

