The Dog That Hasn't Barked: The Political Economy of Contemporary Debates on Canadian Foreign Investment Policies

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The brief period between January 2004 and June 2007 witnessed the largest volume of foreign takeovers of major Canadian-based firms in the nation's history. Canada's four largest steel firms, two of its largest mining companies, Inco and Falconbridge, and its leading aluminum producer, Alcan, came under foreign control during this period—along with seven other takeovers valued at more than $5 billion (*Financial Post Crosbie*, 2004–2008).

A generation ago, such trends would have resulted in a significant political upheaval, with an aroused public demanding that politicians rush to the barricades to defend Canada's sovereignty—or at least the interests of its leading businesses—against the perils of foreign control. Although traditional nationalist elites and several major Canadian business leaders belatedly challenged the takeover trend, calling for government action to protect strategic industries and revisit Canada's limited controls on foreign takeovers, the response of leading politicians and pundits has been remarkably muted.

This article examines the response of Canadian governments, national newspapers, and opinion leaders to these events, focusing on three major questions. Why did the rapid increase in foreign takeovers not produce a more vigorous response among governments, opinion leaders, or major economic interests, particularly in comparison to that of other major industrial countries? How have Canadian governments sought to balance neo-

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liberal policy expectations for relative market openness and reciprocity in foreign investment rules with nationalist concerns for enhanced screening of foreign takeovers and the development of so-called Canadian corporate champions? And what are the major factors that have triggered substantial shifts in public and policy discourses on these issues? In short, why have the watchdogs of Canadian economic nationalism not barked sooner, louder, or to greater political effect in response to these trends?

Debates on foreign investment reflect both political and economic cycles which enhance or diminish the salience of nationalist concerns over the spectre of growing foreign control of Canada's economy—or conversely, over prospects Canadian governments may be deprived of important policy tools for enhancing their citizens' economic and social well-being. The first section of this article locates recent debates in the context of broader cycles of political debate over the relative benefits and risks posed by high levels of foreign ownership since the 1950s. These trends have overlapped with two types of economic cycles in recent years: patterns of capital inflows to and outflows from Canada, and cycles of stock market activity which have contributed to rapidly rising levels of mergers and acquisitions (M&As, takeovers) and sectoral trends towards corporate consolidation, most recently in 1998–2000 and 2004–2007 (Tait, 2007).

Secondly, major changes in Canada's economic structure that have contributed to Canada's growing interdependence within North American and global economies have blurred traditional "us-and-them" distinctions between Canadians and foreign (especially American) investors common during earlier debates. The political effectiveness of nationalist elements has often depended on their ability to mobilize support from Canadian corporate executives by framing their arguments in ways that appeal to the latter's political and economic interests as well as those of other societal groups.

However, Canada has also produced growing numbers of homegrown multinationals whose growth has given them a stake in relatively open international markets for corporate control. Both groups utilize nationalist rhetoric to advance their interests, often by promoting government policies to cultivate "national corporate champions," while prescribing varied mixtures of neo-mercantilist and neoliberal policies suited to their particular interests (Haskayne, 2007; Mandel-Campbell, 2007; Martin and Nixon, 2007). However, these debates have blurred the concept of national champions rather than providing coherent policy guidance to governments.

Third, major changes in relations between capital or financial markets and the goods and services economy have challenged the relative autonomy of corporate executives whose interests in pursuing or resisting takeovers may well vary from those of shareholders. In so doing,

Abstract. This article examines the responses of Canadian business leaders, national newspapers, and governments to record numbers of foreign takeovers of Canadian-based firms in 2004–2007. It assesses the political, economic, financial market, and regulatory contexts for takeover activity in historical, macro-economic, and micro-economic contexts in light of Canada's historically firm-centred business culture. It summarizes five dimensions of policy and media discourse on the interrelated issues of foreign investment and corporate consolidation, including debates on "hollowing out" and "national champions." It concludes that the limited influence of nationalist and related business interests on recent Canadian government policies reflects Canada's growing economic interdependence with other countries, particularly the growing role played by Canadian-based multinationals in foreign markets.

Résumé. Le présent article examine la réaction des leaders du monde des affaires canadien, des journaux nationaux et des gouvernements devant le nombre record de prises de contrôle étrangères de sociétés exerçant leur activités au Canada entre 2004 et 2007. Il évalue l'activité de prise de contrôle selon les données de la politique, de l'économie, des marchés financiers et de la réglementation, dans des contextes historique, macroéconomique et microéconomique, compte tenu de la culture des affaires canadienne, traditionnellement axée sur l'entreprise. Il présente un sommaire des cinq dimensions des politiques et du discours des médias sur des questions liées : l'investissement étranger et la consolidation des sociétés, dont le débat sur l'«évidement» et les «champions nationaux». Il conclut que le peu d'influence des intérêts commerciaux nationalistes ou apparentés sur les politiques récentes du gouvernement du Canada reflète l'interdépendance croissante entre le Canada et d'autres pays et, notamment, le rôle croissant sur les marchés étrangers des multinationales établies au Canada.

they have contributed to a shift in the balance of power in takeover battles to favour acquiring firms (and the shareholders of target firms) at the expense of the latter's executives. These changes have also blurred distinctions between domestic and foreign investors—along with concepts of the public interest served by securities regulations and corporate governance policies guiding the conduct of corporate mergers and takeovers.

These trends are reflected in public discourse at three levels: discussions in the news media, efforts at agenda-setting by think tanks, interest groups, and business leaders, and efforts by governments and political parties to move these debates into the political agenda. The final part of this article will examine the evolving debate over corporate takeovers and foreign investment as reflected in recent discourse among policy analysts, coverage in major national and regional newspapers in 2006–2007 and their reflection in the Harper government's policy responses—along with those of the Competition Policy Review Panel appointed in response to these debates.

Putting the Takeover Debate in Perspective

The study of foreign investment patterns has multiple dimensions relevant to policy analysis, including aggregate trends in the stock, or total value, of foreign investment as a proportion of corporate assets or the

TABLE 1
Tracking Corporate Takeovers and Turnovers

	2003	2004	2005	2006	2007	Total
Total transactions	833	875	1,613	2,025	1,941	7,287
Transactions between Canadian firms "A"	469	482	1,062	1,293	1,163	4,469
Canadians acquiring foreign companies	229	248	379	497	508	1,861
Canadians acquiring Canadian companies from foreigners	38	27	29	41	24	159
Sub-total "B"	267	275	408	538	532	2,020
Foreigners acquiring Canadian companies	65	86	89	125	192	557
Foreigners acquiring Canadian subsidiaries from foreigners	32	32	54	69	54	241
Sub-total "C"	97	118	143	194	246	798
Value of transactions (in $ billions)						
• sub-total "A"	20.8	35.0	67.0	55.4	80.3	258.5
• sub-total "B": Canadian acquisitions	48.6	54.2	37.9	87.7	98.0	326.3
• sub-total "C": foreign acquisitions	13.9	23.3	60.7	114.2	192.0*	404.1*
• Total	83.3	112.5	165.5	257.4	370.3*	988.9*

*Includes $51.7 billion acquisition of BCE Inc. by consortium led by Ontario Teachers Pension Plan. "Foreign" takeovers based on minimum of 10 per cent foreign equity share in acquired firm.
Source: *Financial Post* Crosbie, 2004–2008; author's calculations.

ownership of major corporations, and variations in flows of direct (significant or controlling ownership of corporations) or portfolio investments.

Trends in capital markets and growing two-way (inward and outward) flows of foreign investment have embedded debates over foreign investment within broader discussions of corporate takeovers, the reorganization of multinational enterprises (whether Canadian or foreign-based), and the acquisition and sale of business units which have become everyday occurrences in the kaleidoscopic dynamic of domestic and international business activity. Table 1 summarizes the major elements of corporate M&A activity tracked by Canadian investment banker, Crosbie and Company, between 2003 and 2007.

Debates over levels and relative benefits or risks of foreign investment reflect both political and economic cycles. Simeon and Robinson (1990) have characterized the political economy of the 25 years after the Second World War as Canada's "international policy." Successive federal and provincial governments encouraged an influx of foreign capital to develop Canada's manufacturing and resource industries, complementing broadly Keynesian fiscal policies, the incremental growth of its welfare state, and the spread of industrial unionism. Although the 1957 report of the Royal Commission on Canada's Economic Prospects, chaired by Walter Gordon, challenged Canada's open door to foreign investment, it was not until the early 1970s that such views secured a critical mass within the governing Liberal party, despite the more or less nationalist policies of several provinces (Bradford, 1998).

The Trudeau government's drift towards economic nationalism during the 1970s, which combined symbolic and substantive (often sectoral) initiatives, culminated in the National Energy Policy of 1980 and other measures intended to reassert federal economic leadership and control. However, these initiatives proved to be short-lived. Combined with the effects of the worst recession in fifty years, they alienated much of Canadian business and middle-class opinion from the politics of economic nationalism, prompting extensive policy reversals which began even before Trudeau's departure from office in 1984 (Milne, 1986; Hale, 2006).

Even before the release of the Macdonald Commission report in 1985, the Mulroney Conservatives had replaced the Foreign Investment Review Act, with its limited screening of foreign investment, with the Investment Canada Act, whose net benefits test for allowing foreign investments and takeovers paralleled the Commission's generally pro-market economic outlook. Although Canada maintained extensive sectoral restrictions on foreign investment, a series of international trade agreements established clear procedural limits for screening incoming investments. The Chretien government, elected in 1993, effectively maintained most of its predecessor's neoliberal initiatives, fine-tuning some and extending others.

The relaxation of controls over foreign direct investment (FDI) was followed by the incremental economic deregulation of capital markets, following several other countries. Even before the signing of the Canada-US Free Trade Agreement (FTA) in 1987, Quebec and Ontario opened their markets to foreign-owned securities dealers. During the early 1990s, changes to financial regulations allowed Canada's chartered banks to take a dominant position within the trust and securities sectors. Pension and retirement savings funds were allowed to invest progressively larger shares of their capital outside Canada. The emergence of a dynamic mutual fund sector, along with changes to the governance and funding of public sector pension funds, fundamentally changed the nature of Canadian capital markets.

These trends were accompanied by significant, long-term economic shifts in levels and flows of foreign investment, as noted in Table 2. In 1970, the level of FDI in Canada was more than four times the value of Canadian-based companies' direct investment abroad (CDIA). The percentage of non-financial industry assets under foreign control peaked in the mid-1970s, shortly after the introduction of economy-wide provisions to screen foreign investment. Foreign investment stocks declined significantly during the 1970s and 1980s as a percentage of GDP and of the overall value of corporate assets in Canada, before rebounding during the 1990s (see Table 3).

TABLE 2

Foreign Direct Investment in Canada vs. Canadian Investment Abroad (value of investment "stock": billions of current dollars)

	1970	1980	1990	2000	2005	2006	2007
Foreign direct investment	27.4	64.7	130.9	302.3	395.2	437.8	500.9
Canadian direct investment abroad	6.5	28.4	98.4	340.4	455.2	530.0	514.5
Ratio	4.20	2.28	1.33	0.89	0.87	0.83	0.97

Source: Statistics Canada, 2001, 2008, author's calculations.

These changes reflected other shifts in overall economic activity, including the growing openness of the Canadian (and other) economies to international trade, fluctuations in the prices of major commodities (especially energy), and the restructuring or disappearance of many major Canadian and foreign-based firms (Baldwin and Gellatly, 2005; Gellatly et al., 2006; Hale, 2006).

Shifting regulatory trends also contributed to Canada's emergence as a net exporter of capital. Since 1997, the total value of Canadian direct investment abroad has exceeded foreign direct investment in Canada despite rapid growth in the number and volume of takeovers since 2005 (see Table 2). Similarly, there has been a sharp increase in portfolio (non-controlling) investments abroad as Canadian institutional and individual investors have diversified their investments in American and global markets.

This maturing of Canadian business and capital markets means that Canadian multinationals are increasingly active players in the global trade

TABLE 3

Percentage of Assets and Revenues under Foreign Control in Non-Financial Corporations (1965–2005)

	Assets	Revenues	Revenues: Assets
1965	28.6	33.0	1.15
1973 (FIRA introduced)	32.3	36.3	1.12
1980 (NEP introduced; energy price spike)	25.3	31.5	1.25
1985 (FIRA becomes Investment Canada, NEP winding up)	21.4	28.8	1.35
1989 (FTA takes effect; low energy prices)	23.6	25.4	1.07
2000 (Peak of 1990s boom; energy rebound)	25.5	31.4	1.23
2005	27.2	30.7	1.13

Sources: Baldwin and Gellatly, 2005: 18; Statistics Canada, 2007b.

and investment game, as noted in Table 1, sometimes taking over the competition and, at other times, being subject to takeovers in a multi-cornered game of corporate Pac-Man. Perspectives of these trends by societal interests tend to be quite fragmented, depending on their relative security, the availability of economic options, and the perception that they are "winning" or "losing" as a result of their ability to "play the game."

Cyclical flows of foreign capital into Canada increased slightly during the 1990s, although not to the extent anticipated or hoped for by neoliberal governments seeking to attract investment from outside North America. However, the stock market boom of 1998–2000 witnessed record levels in M&A activity, including several major foreign takeovers that triggered concerns over the potential "hollowing out" of the Canadian corporate sector (Estey, 1999; Hurtig, 2002).

Beginning in 2000, major stock market declines deflated the takeover boom and much of the related media outcry. Despite increasingly distant relations with the Bush administration, the Chretien government carefully distinguished between its pursuit of an independent foreign policy and its cultivation of both close economic ties with the United States and the multilateral liberalization of trade and investment rules (Canada, Standing Committee on Foreign Affairs and International Trade, 2002).

The most recent cycle of M&A activity (see Table 1) began in 2004, growing to a crescendo during the first half of 2007 with 1,036 deals valued at $264.7 billion. About 58 per cent of this figure represents foreign takeovers of Canadian-controlled firms, compared with 1,968 deals valued at $257 billion during all of 2006, with 40 per cent foreign content. Ironically, the largest notionally "foreign" takeover—the $51.7 billion acquisition of BCE led by the Ontario Teachers Pension Plan—demonstrates the blurring of traditional distinctions between Canadian and foreign firms and investors that often accompanies global capital flows. When this transaction is included, the value of major Canadian firms sold to foreign interests in 2005–2007 was significantly higher than that of foreign firms acquired by Canadian companies. However, the total market value of foreign firms acquired by Canadian firms in 2002–2006 exceeded that of Canadian firms sold to foreigners by about 10 per cent, suggesting the lumpy character of these statistics.

Although some media voices raised concerns over rising levels of foreign takeovers during 2005–2006, debate remained relatively muted until early 2007 when several senior business leaders responded to high-profile takeovers by calling for greater restrictions, particularly in strategic industries (D'Alessandro, 2007; Marotte, 2007). Liberal opposition leader Stéphane Dion subsequently called for a moratorium on Investment Canada's authorization of new takeovers (Chase, 2007b). Conservative Finance minister Jim Flaherty responded in mid-July, appointing a "review panel" of five prominent business people to review related Canadian competition policies and rules governing foreign takeovers (Vieira, 2007b). The panel's June 2008 report called for a relaxation of sectoral restrictions on foreign investment while encouraging governments to give the boards of directors of Canadian-based firms greater freedom to resist hostile takeovers (Competition Policy Review Panel, 2008, 38–52, 76–78).

Multi-billion dollar takeover battles for corporate giants Alcan and BCE marked the peak of the cycle in June and July 2007. However, a stock market correction and the spillover into global markets of credit pressures resulting from the meltdown of the US sub-prime mortgage market momentarily deflated the M&A market and provided time for deeper policy reflection.

These events have raised significant questions as to the rules that should govern all takeovers, not just those by foreign investors, the nature of the public good served by such rules, the purposes served by defining "strategic sectors" subject to different ownership restrictions than the general marketplace, and the availability of other policy tools capable of fostering both a competitive marketplace and competitive businesses.

Industrial Strategies, Strategic Sectors, and the "Politics of Balance"

Historically, the regulation of foreign investment in Canada has reflected several cross-cutting strategies. Governments have often sought to maintain Canadian ownership of strategic economic sectors through a mixture of ownership restrictions and the use of federal and provincial Crown corporations as instruments of economic development. The evolution of Canada's railway, airline, broadcasting, telecommunications, and public utility sectors provide several examples of this approach to public policy (Hale, 2006: 278–89). Ownership restrictions on banks and other financial institutions suggest others. A 2002 study of large, publicly traded companies indicated that seven of the ten largest firms on the TSX by market capital were in sectors subject to foreign ownership restrictions (Hale, 2006: 189).

At the same time, Canadian governments, especially at the provincial level, have encouraged foreign investment to foster economic development and job creation. Provincial ownership of natural resources has also enabled governments to separate issues of business ownership and investment from those of securing optimal rents (economic returns) through the use of tax policies or requirements for processing and upgrading within the province.

Past foreign investment debates have often focused on the effects of federal tariff policies in supporting small, relatively inefficient branch plants serving Canadian markets despite their frequent lack of the operational scale, technological sophistication, or managerial mandates to compete internationally. During the 1960s and 1970s, debates raged over the most effective response to these problems: whether a government-led industrial strategy of fostering national champions through preferential regulations and other supportive measures, or a trade-based policy of opening markets and providing micro-economic policies supportive of economic adjustment and greater competitiveness. Both government and business sentiment gradually evolved in the latter direction as Canada became more dependent on US export markets and more vulnerable to congressional protectionism (Hart, 2002: 294–304, 342–47).

The Mulroney government's 1985 acceptance of the Macdonald Commission's report and its subsequent negotiation of FTA and NAFTA marked a major shift in this debate. Changes to federal competition policies, legislated in 1986, replaced direct regulation of foreign investment as Ottawa's primary policy tool for assessing the net benefits of M&A activity, whether foreign or domestic in origin (for example, see Canada, 2005).

Canada still has regulatory restrictions on foreign investment in the banking, telecommunications, railway and airline sectors, as well as cultural industries such as broadcasting, book and magazine publishing. However, general policy trends have been towards the accommodation of more open markets for ownership and control. The OECD has urged Canada to remove regulatory barriers to foreign investment in the telecommunications and transport sectors to promote greater economic efficiency and innovation (McLean, 2007). Corporate responses to these suggestions have been mixed, reflecting different, firm-specific calculations of economic self-interest among major Canadian-based firms in traditionally protected sectors (Thorpe, 2008).

Sectoral ownership restrictions can have significant and unintended effects during periods of growing international competition. Canadian Airlines' efforts in 1999 to fend off a hostile takeover by Air Canada by soliciting a friendly takeover by American Airlines and related Canadian investors were frustrated by the courts, citing legal restrictions on foreign ownership of airlines in excess of 25 per cent (Clancy, 2004: 251–56). The terms imposed on Air Canada's subsequent takeover of Canadian Airlines to protect consumers and employment levels against its exercise of monopoly power accelerated that company's slide into bankruptcy, and the gradual emergence of another national duopoly dominated by a restructured Air Canada and its smaller rival, WestJet.

The federal government's rejection of two proposed mergers involving four of Canada's largest banks (Whittington, 1999) has resulted in their pursuit of international expansion, both in the United States and further afield, although the banks continue to lobby for more flexible merger rules. Canada's largest insurance companies have followed similar patterns of diversification. Not insignificantly, four offshore financial centres: Barbados, Bermuda, the Cayman Islands and the Bahamas had become among the 11 largest recipients of Canadian direct foreign investment by 2003 (Lavoie, 2003:2). These findings probably contributed to significant changes in Canadian tax rules relating to foreign acquisitions by Canadian firms in the 2007 federal budget (Canada, 2007: 239–44).

Outside of protected sectors, Canada's international trade agreements typically mandate policies of non-discrimination and national treatment for foreign investors, with specific sector exemptions and qualifications. Canada's World Trade Organization (WTO) commitments set a review threshold of $295 million for takeovers of Canadian-based firms by companies based in WTO member countries in 2008—$5 million for takeovers in the financial services, transportation services (including pipelines), uranium mining, and cultural industries (Competition Policy Review Board, 2008, 28–29).They also make all indirect takeovers (of currently foreign-controlled Canadian subsidiaries) exempt from review under the Investment Canada Act—if not under federal competition laws.

These commitments reflect not only international regulatory and market trends but evolving official views of Canadian interests. The extent of Canadian direct and portfolio investment abroad both reflects the greater regulatory security provided for foreign investments in most industrial countries. It also creates a significant domestic constituency that could well be harmed were Canada to resort to more nationalist approaches to economic regulation. Moreover, dispute resolution processes established under NAFTA's chapter 11 may require Canadian governments to compensate foreign investors whose businesses are subject to discriminatory regulatory treatment or expropriation. This combination of institutions and interests creates significant disincentives for a return to nationalist investment policies.

The Harper government's unprecedented veto of the sale of Macdonald Dettwiler's aerospace division to U.S. interests in April 2008, while justified in part on grounds of national security, appears to have been the product of exceptional political and regulatory circumstances rather than a guide to future policy trends (Stueck, 2008; Clark, 2008; Prentice, 2008).

Smythe notes that, with the European Union, Canada has played a leading role at the WTO in promoting international investment protection regimes that reflect the views of successive governments of Canada's interests as a net exporter of capital (2007). Ottawa has signed and implemented 21 foreign investment protection agreements (FIPA) between 1991 and 2005 as federal officials encouraged participation in global value chains by Canadian firms (Smythe, 2007: 318–29) More recently, it has initiated FIPA negotiations with both China and India. These initiatives mark a substantial shift in Canadian policies and government attitudes towards the international economic system since the 1970s.

More recently, three trends in international capital markets have destabilized this rough equilibrium. The first is the growing scale and scope of state-owned, -controlled, or -sponsored firms from emerging economies such as Russia, China and Brazil as active players in global takeover markets. A parallel trend involves the growth of state-controlled investment firms, or sovereign wealth funds, with the capacity to deploy billions—and prospectively, trillions—of dollars in global capital markets (Barnes, 2007). Both trends complicate the past decisions of Canadian governments (and those of most major industrial countries) to accommodate more open financial markets.

These developments raise significant challenges, notably those of reciprocity—whether Canadian-firms operating abroad will enjoy legal rights and economic opportunities comparable to those of such firms—and transparency—whether in financial reporting (and compliance with relevant market regulations), or in the mix of political and economic objectives guiding such firms and their compatibility with the domestic interests of countries in which they invest.

In sum, Canadian foreign investment policies remain a balancing act between domestically focused and internationally focused businesses. However, the growing interdependence of markets for goods, services and capital across national borders, combined with the idea that businesses—and competitive markets—should serve the interests of consumers and shareholders and not just those of their executives and employees, has greatly complicated the notion of using government policies to promote strategic sectors or Canadian champions.

The Rising Power of Financial Markets and the Contested Market for Corporate Control

Changes in the regulation and composition of financial markets since the 1980s have blurred traditional distinctions between domestic and foreign actors, while broadening the range of interests to be accommodated by public policies on corporate governance and control.

Before these changes, the regulatory regime governing Canada's financial sector enforced a functional separation of responsibilities between commercial and investment banks, as well as trust and insurance companies. As in Britain and the United States, financial sector firms rarely took ownership positions in their business clients. Senior executives of non-financial sector corporations typically had substantial autonomy in the use of their shareholders' money. This autonomy was reinforced by the emergence of large conglomerates or holding companies capable of leveraging their executives' control over major businesses to build large, often diversified corporate empires that could deal with major financial institutions from positions of relative strength (Chernow, 1990). As a result, a relative handful of large, closely held firms dominated major sectors of Canada's economy.

Several factors have changed the balance of power between large industrial corporations and the financial sector. These include corporate restructuring trends noted earlier, the growing participation of middle class Canadians in equity markets—often linked to the accumulation of savings for retirement—the progressive integration of Canada's growing capital markets within broader North American and international market systems, widespread corporate restructuring resulting in the break-up of major conglomerates, and the disappearance or absorption of many market-leading firms and the emergence of new ones (Hale, 2006: 183).

Government policies have both spurred and accommodated this process, reflecting the reciprocal feedback mechanisms of public policies and market activity in an open economy. Since the 1970s, federal policies have promoted systematic savings for retirement, fostering the rapid growth of major pools of capital. Successful anti-inflation policies and the resulting drop in North American interest rates resulted in huge inflows of private savings into equity markets during the 1990s. These capital flows, managed largely by mutual and pension fund managers and other institutional investors, fuelled an unprecedented stock market boom. Along with the refunding of the Canada Pension Plan (and related governance reforms) after 1996 and pursuit of market-based strategies by other public sector pension funds since the early 1990s,[1] these trends have transformed the character of Canadian capital markets.

These institutional investors have considerable market power. Moreover, increased competition in the takeover market increases the value of their holdings and those of millions of Canadians whose savings they manage. Widespread public participation in equity markets also gives public discussions of these issues a more populist tinge than might otherwise be the case. Financial journalists often place greater emphasis on the rights and interests of minority shareholders and less on the autonomy of corporate management in using shareholders' money to build their businesses.

Other regulatory reforms have encouraged increased competition among banks, insurance companies, and other financial institutions in the growing "wealth management" business. The decisions of Canadian governments first to liberalize and then to eliminate foreign content limits on pension and retirement savings funds enabled these investors both to expand their holdings in global equity markets and to enjoy a wider range of investment choices. Foreign content limits used to limit holdings of non-Canadian-based investments were raised from 10 per cent to 20 per cent through most of the 1990s and 30 per cent in 2001, before being eliminated in the 2005 federal budget. Foreign holdings of Canadian registered pension funds reached 29 per cent in 2006; foreign holdings of Canadian mutual fund companies totalled 45 per cent of assets (Statistics Canada, 2007a; Go, 2007). These figures underline the degree to which foreign investment is a two-way street for financial markets and individual Canadians, not just businesses engaged in international operations.

These trends paralleled the effects of regulatory liberalization, financial sector restructuring and resulting market innovations across much of the industrial world during the 1980s and 1990s. The stock market boom of the 1990s—and the international market rebound of 2004–2007—helped to fuel takeover markets by offering institutional investors (and the millions of small investors and pension fund stakeholders whose funds they managed) higher returns than those on offer from existing corporate managers. These pressures also forced managers of successor firms to aggressively restructure their operations to pay off the increased debt loads often associated with takeovers, generating substantial fees for investment bankers as one deal followed another.

The takeover game provides no guarantee of increased market performance or shareholder value at the level of the individual firm. Such outcomes depend on the skills of corporate managers and their judgments of (and responses to) market risks and opportunities. Historically, the largest takeovers, which inherently create greater difficulties in integrating the operations of the target firm into those of the acquiring company, are more likely to destroy than create shareholder value—except for those perceptive shareholders who prefer to sell their shares and reinvest the proceeds elsewhere. However, the very decision to sell in such cases has the potential to release investment capital for more productive use elsewhere in the economy.

The primary policy instruments used to govern M&A activity (except in industry sectors with substantive regulations on market entry and ownership or explicit restrictions on foreign investment) are those of national (or, in Canada, subnational) securities regulators and, at the margins, federal competition policies, discussed further in the next section. Discussions of securities rules tend to be dominated by securities lawyers, investment bankers and institutional investors, groups whose clients include both acquirers and targets of takeovers (and their shareholders).

Government efforts to micro-manage such decisions risk accusations of political favouritism—and of political and bureaucratic bungling if such transactions are unsuccessful, as with the Air Canada/Canadian Airlines merger discussed earlier. These realities were reflected in the Harper government's hands-off approach to the extended takeover battle for BCE in 2007–2008, and to aggrieved bondholders' ultimately unsuccessful efforts to challenge the terms of the takeover before the courts (Rousseau, 2008; Supreme Court of Canada, 2008). However, this does not prevent governments from imposing restrictive covenants on companies that look to them for financial help in adapting to changing market conditions or making decisions on the location of new production facilities that may materially affect their attractiveness as takeover targets (Hoffman, 2007).

The cumulative effect of these changes has been to create a system of financial capitalism that is highly motivated to contest the autonomy of corporate management to secure a higher share of the returns from business activity. These activities also affect the ways that financial sector regulators define the public interest, particularly enforcing higher standards of transparency and accountability for managers and directors of publicly traded companies and their financial advisors. The "Enron-effect" led US and Canadian regulators to intensify the legal obligations of directors of publicly traded corporations to serve shareholders' interests, not just those of corporate management, thus providing a tactical advantage to acquiring firms in contested takeovers. The cumulative effect of these shifts in market and legal norms has been to place greater value on the quality of a firm's management—a factor largely beyond the competence of regulators—and its capacity to enhance shareholder value than on its country of origin.

Takeovers, Foreign Investment and Competition Policy

The sectoral dimension of many economic policies often leads M&As to be assessed for their impact on domestic and international competition within a particular industry or subsector. The federal competition bureau reviewed 18.7 percent of the 7,982 mergers valued at more than $50 million which occurred in Canada between 2002 and 2007. However, only 15—or 1 percent of these reviews—resulted in legal remedies under the Competition Act "such as divestitures of assets or businesses" (Competition Policy Review Panel, 2008, 55).

Industry structures evolve over time, affected by shifts in market conditions, regulatory systems, technological change, and innovative approaches to corporate organization among other things. Beyond sectoral ownership regulations discussed above, the primary *federal* policy instruments used to manage, regulate or respond to such developments are exercised by national competition regulators.

Contemporary competition policy studies distinguish between protecting competition by particular firms and facilitating processes to encourage competition among firms. This distinction is central to differences between neomercantilist and neoliberal perspectives of appropriate measures for encouraging the growth of national champions. Protecting competition by particular firms may instead result in protecting the management of those firms *from* competition, particularly in the market for ownership and control. Government intervention in such cases often pits the interests of managers—and often the unionized employees who share in economic rents from reduced competition—against the interests of consumers and shareholders.

Rather than protecting firms—at least, those outside strategic sectors—from takeovers, foreign or otherwise, governments are more likely to promote a variety of policy outcomes by regulating the activities of corporations rather than their ownership. These shifts in regulatory policies parallel the general trend away from economic regulation—of market entry and exit, prices charged, or production levels—and towards a greater emphasis on social and environmental regulation.

Canadian competition authorities work closely with their counterparts in the United States and Europe on mergers with significant implications for corporate concentration and competition that cut across national boundaries. In all three jurisdictions, mergers may be allowed subject to "consent agreements" requiring firms to sell parts of their businesses to appropriate purchasers to limit adverse effects on competition. The integration of many major Canadian industries with US (and sometimes wider international) markets often leads Canada's Competition Bureau to "rely on remedies in ... foreign jurisdictions" when their recommendations for divestiture and/or corporate conduct do not directly affect corporate assets based in Canada (Hutton, 2007). For example, the Bureau did not intervene in Mittal's 2006 takeover of Arcelor that created the world's largest steelmaking firm, despite Arcelor's 2005 takeover of Dofasco, Canada's second largest steel producer (Competition Bureau, 2006). However, it was reportedly in close contact with both US and EU authorities throughout the process, which resulted in both regulators requiring Mittal to dispose of particular assets within their jurisdictions to preserve competition.

A series of subsequent takeovers which saw the absorption of four other major Canadian steel producers—Ipsco, Algoma, Stelco, and Harris Steel—by foreign firms in 2007 reflected several factors which made these firms' national origins a distinctly secondary consideration. These included the fiduciary responsibilities of corporate directors, noted above, the disparate corporate strategies and cultures of individual firms, which limited the potential for their consolidation in a single national champion, and the missed opportunities of previous years which prevented one or two Canadian firms from achieving the scale necessary to be industry consolidators, at least within North America, rather than objects of consolidation (Clancy, 2004; Silcoff, 2007; Keenan, 2007).

Taken together, these factors have shaped the evolving public discourse on foreign investment, whether among policy experts, news media, or politicians. As long as Canadians are seen as effective competitors in the takeover game, other interests are likely to contest nationalist and protectionist agendas that would impose tighter restrictions on foreign capital, and, potentially, corresponding restrictions on external investment activities of Canadian businesses and investors.

The Belated Political Debate on Foreign Investment: Political, Expert, and Media Discourse

The preceding discussion suggests that structural economic changes and increased competition for the control of major corporations, in Canada and elsewhere, have embedded recent debates over foreign investment within a broader discourse of economic interdependence and business competitiveness. The political salience of these debates is a function of interrelated political and economic cycles, particularly the number, frequency, and prominence of major takeovers by foreign firms relative to similar activities by Canadian firms.

This hypothesis is supported by a qualitative analysis of public discourse of foreign investment and issues related to M&A (or takeover) activity based on coverage in three major Canadian newspapers: the *Globe and Mail*, *National Post*, and the *Toronto Star*, for a period of 16 months between July 1, 2006, and October 31, 2007. The first two newspapers were chosen for their national distribution and strong mixture of political and business coverage. The third, while largely regional in its distribution, was added for political balance as the primary voice of Canadian nationalism among general circulation dailies in major Canadian cities.

The bulk of newspaper coverage of M&A and foreign investment activity and related issues may be categorized into five general frames: coverage of individual business transactions (both current and retrospective), reporting and analysis on current economic and market research reports, public statements of business leaders, editorial and opinion ("op-ed") commentaries, and general political reporting and analysis.

Stories from the first two categories dominated media coverage through most of 2006. The record pace of merger and takeover activity began to elicit comments from senior corporate executives—and scattered comments by politicians—during the first few months of 2007. Media coverage and debate intensified in May and June 2007 as several senior executives, subsequently echoed by Opposition Leader Stéphane Dion, demanded that the Harper government take concrete action. Early in July 2007, as promised months earlier, the latter appointed a review panel to study these issues and to make recommendations on appropriate changes to foreign investment and related competition policies. The panel's June 2008 report and initial reactions to it will be discussed at the end of this section.

Turmoil in global financial markets arising from the collapse of the US sub-prime mortgage market during July and August 2007 deflated the takeover boom—and much of the related political rhetoric—as investment banks began to apply more conventional discipline in financing M&A activity. Ottawa's responses to these events are discussed later in this section.

This section examines each of the five frames for discussing foreign investment and corporate takeover—and their implications for the broader public and policy debates.

Coverage of Individual Business Transactions

Major takeovers—several involving foreign firms in primary or supporting roles—were among the most intensively covered stories in the Canadian business media in 2006–2007. Most of this coverage is located in the business/financial pages of each paper, although the multi-billion dollar takeovers of BCE, Alcan and Stelco also received front page coverage in the main news section.

In September 2006, the growing salience of the foreign investment debate led the *Globe and Mail's* "Report on Business" to publish a series of retrospective analyses of the effects of foreign takeovers on prominent Canadian businesses (Pitts et al., 2006). These analyses emphasized what Atkinson and Coleman (1989) have described as Canada's firm-centred business culture: the tendency of individual businesses to function as independent actors in both economic and political markets. In the context of this study, the impact of foreign takeovers on Canadian firms appears to reflect individual firms' corporate strategies and management styles, and the functions of their Canadian affiliates within North American and global production networks.

News and Op-Ed Summaries and Analyses of Major Research Reports

These stories translate economic and business research by Statistics Canada, other government agencies, think tanks, and financial and other private sector firms into terms accessible to the general public. Such studies, which are usually in the public domain via the Internet, have provided the dominant policy frame for the analysis of major policy issues associated with takeovers, foreign investment, and the alleged "hollowing out" of Canada's head office sector in recent years.

Technical policy discourse on these issues in Canada tends to be dominated by economists. The federal government has commissioned several major reports on foreign investment's effects on productivity and other competitiveness issues during the past twenty years (for example, see Waverman, 1991; Harris, 2003). The micro-economic analysis section of Statistics Canada regularly publishes studies on the nature, extent and impact of foreign investment, including its effects on productivity and head office employment.

These analyses have had two practical effects on policy debates. First, the focus on this research on trends in productivity and employment (Baldwin and Hanel, 2000; Baldwin and Gu, 2005) is sufficiently technical to receive limited coverage in the news media. Secondly, their prevailing view that two-way flows of foreign investment are, on balance, an asset rather than a liability to Canadians because of their contributions to economic growth and employment levels has visibly influenced the responses of both Liberal and Conservative politicians to nationalist pressures.

A historic criticism of foreign takeovers is that they tend to shift decision-making responsibility from Canadian-based executives to those in foreign head offices. These decisions may also affect the nature and extent of R&D activities carried out by Canadian firms, and make Canadian operations more vulnerable to shifts in international economic conditions, leading to accusations that they contribute to hollowing out of Canada's economy.

Recent research on the effects of takeovers on head office activity in Canada suggests the impact of foreign takeovers varies significantly with the nature of the industry, the relative importance of the Canadian subsidiary to the corporate strategies of foreign parents, and differences in business cultures that may place a premium on local or North American market awareness (Verbeke et al., 2006). Beckstead and Brown indicate that head office employment in Canada increased by 11 per cent overall between 1999 and 2005, although these figures mask substantial regional differences (2006).

One argument advanced in favour of FTA and NAFTA was the greater likelihood that Canadian operations, whether domestically or foreign-controlled, would be more likely to acquire capacities needed to compete internationally if focused on serving North American or global markets and specializing to do so more effectively. Since that time, a growing body of economic research indicates that multinational firms tend to have stronger records of R&D performance, application of advanced technologies, and productivity growth than those that primarily serve Canadian markets (Gera et al., 1999; Tang and Rao, 2001).

The other major story frame for statistics on takeovers and foreign investment is that of "horse race journalism." Who is winning the current game of corporate Pac-Man? How do Canadian takeovers of foreign firms compare with foreign takeovers of Canadian firms? What are the trends, if any, in the proportion of Canadian business assets—or of

Canada's 100, 200 or 800 largest firms—controlled by foreigners? As noted in Table 1, the general trend of recent years is for Canadian acquisitions of foreign firms to outpace foreign acquisitions of Canadian firms over most five- to seven-year cycles, despite occasional "lumpy" transactions such as Vivendi's $66 billion purchase of Seagram in 1998, or Rio Tinto's $38 billion takeover of Alcan in 2007 (Guillemette and Mintz, 2004; Rubin et al., 2007).

The Public Statements of Business Leaders

The foreign investment debate also reflects the relative dependence of particular economic interests on regulatory protection by governments and access to foreign capital and markets for expansion and growth. Many Canadian business leaders favour open markets for foreign investment. However, senior executives of large industrial and financial companies have called for stronger federal restrictions on foreign takeovers, causing some observers to note the healthy combination of patriotism and self-interest reflected in these views.

Manulife CEO Dominic D'Alessandro's May 2007 statement advocating more restrictive foreign takeover policies triggered a series of vigorous exchanges in all three newspapers studied. Significantly, most of the executives who championed greater takeover restrictions, including D'Alessandro, Royal Bank's Gordon Nixon, and Bombardier's Laurent Beaudoin, already benefit from such restrictions or have been chronic beneficiaries of other preferential policies. Their mercantilist arguments were most likely to be challenged by investment industry leaders such as Onex's Gerald Schwartz or Ian Russell of the Investment Industry Association of Canada, those involved in building internationally competitive firms through acquisitions, such as retired EnCana CEO Gwyn Morgan and Goldcorp's Ian Telfer, or business economists such as the TD Bank's Don Drummond, a former senior official of the federal finance department. These executives appear to take the view that, with limited exceptions, barriers to successful Canadian multinationals are primarily domestic. Their principal counterargument was that Ottawa should remove obstacles to the development of internationally competitive Canadian corporations, rather than creating greater obstacles to foreign investment (Schwartz, 2007; Morgan, 2007; DeCloet, 2007).

Although the concept of national champions features prominently in such discussions, it is rarely defined with any precision. In some instances, such as Dick Haskayne's 2007 memoir, *Northern Tigers*, it describes firms that have achieved sufficient scale and scope to compete effectively within Canadian, North American, or global markets, and fend off potential takeovers. Mandel-Campbell uses the term to describe firms of global, not just North American, scope, headquartered in Canada, owned and managed by Canadians (a concept from which she appears to exclude recent immigrants), and which are among the largest companies in their particular sectors (2007).

The Institute for Competitiveness and Prosperity uses the term "global leader" to describe "companies that are Canadian-owned, Canadian-headquartered, rank in the top five of their industry worldwide in revenue and have more than $1 billion (Canadian) in annual sales in that industry ($617 million in 1985 dollars)." The institute counted 14 Canadian global leaders in 1985. This figure grew to 46 in 2003, despite high-profile foreign takeovers of major firms, but had declined to 39 by the end of 2006 (Martin and Nixon, 2007; Competition Policy Review Panel, 2007:10).

During the summer and early fall of 2007, the give and take of such arguments began to evolve into a broader synthesis, captured in part by commentaries by Roger Martin of the Rotman School of Business, and a policy statement from the Canadian Council of Chief Executives (CCCE). Its CEO, Thomas D'Aquino, contends that "this is not an issue that we can address by building walls. Rather, we must concentrate on making Canada ... more attractive as a home base for international enterprises." The CCCE has used the foreign takeovers debate to argue for "lower corporate tax rates, as the single most effective way to attract more head office jobs," competition policies that "leave more room for mergers to create stronger national champions," and improving access to the United States through the "free flow of goods, people and investments across borders" (CCCE, 2007).

However, one area in which there appears to be a growing consensus among business advocates and politicians, whatever their other views on foreign investment, is the need for new rules governing foreign takeovers by foreign state-controlled firms and the incorporation of national security guidelines into Investment Canada's screening process for "net benefits."

Editorial and Opinion Commentaries

Newspaper editorials and columnists have actively taken up these arguments, both supporting and challenging the positions taken by business protagonists. David Crane and David Olive of the *Toronto Star* (and the *Star*'s editorial page) have maintained that paper's traditional commitment to strengthening the national interest tests of the Investment Canada Act, while taking measures to promote the development of "internationally competitive Canadian champions," although some columnists took a less analytical view of the Harper government's allegedly "rolling over" for foreign investors.

> Having barely sniffed at the suitors that circled the country's most storied mining firms, Falconbridge and Inco, the Harper government has assumed the paws-in-the-air position of those girl dogs in the park who like it when my boy dog comes by.... If the Harper government had any spine it would be quickly drafting tighter restrictions for foreign control of natural resources. It is this that's in the national interest. (Wells, 2007)

Commentators in the *Globe and Mail* and *National Post* have responded by questioning whether the interests of corporate executives should trump those of shareholders in calculating the national interest, given that both groups generally act to further their own self-interest. Some suggest that regulation, if necessary to protect the public interest, should target behaviour rather than ownership. Most *Globe* and *Post* columnists have disparaged the notion that governments could cultivate national champions, as opposed to a favourable environment for competent managers (of whatever background) to use their skills to best advantage.

Peter Foster's remarks are typical of this outlook. "History shows that coddling 'champions' just doesn't work. It makes them fat, slow and political" (2007). Other commentators, such as Jack Mintz, have argued that foreign investment restrictions are "back-door ways for governments to shield Canadian management from competition" (Partridge, 2007).

Intriguingly, both Canadian nationalists and market-oriented neoliberals (including some business leaders) placed much of the blame for the current distress over foreign takeovers squarely on business executives themselves. Crane suggests that "the takeover of so many Canadian companies by foreign multinationals ... is a clear signal that Canadian management and Canadian investors would rather sell than restructure. They would sooner take their profits and run than take on the much greater challenge of building 21st-century businesses" (2007). Barrick Gold's Peter Munk went even farther, arguing that making international acquisitions "requires balls, it requires guts, it requires vision, and those are not qualities that come to [Canadian] senior corporate managers" (Marotte, 2007). This theme also resonates throughout Andrea Mandel-Campbell's widely publicized book, *Why Mexicans Don't Drink Molson's* (2007), which critiques the managerial failures and cultural limitations of Canadian businesses in international markets.

In fairness, several commentators have also noted that corporate managers often overpay for assets during market booms, resulting in major challenges when the bubble bursts. When the US dollar's sharp decline after June 2007 triggered a spate of Canadian takeovers of American-based firms, the *Globe*'s Andrew Willis commented that "thick-skinned CEOs—who resisted the call to buy when everyone else was—are now springing in to action, buying what they see as quality assets that are suddenly available at more reasonable or even discount prices" (2007).

The overall tenor of media coverage of business strategies and transactions suggests that the behaviour of corporate executives, institutional investors, and their advisors reflects a complex mixture of incentives, opportunities, and constraints that responds to the interaction of market forces, political constraints, and the varied cultures of the firms and industries in which they work. However, these complexities are often overlooked when such issues become the subject of political debates.

Political News Reporting and Analysis

Despite the growing wave of takeover activity, Canada's senior political leadership remained largely on the sidelines of the debate almost until the boom's peak in June 2007. It appears that the preference of the Martin and Harper governments, influenced by the economic studies noted above, was to allow markets to take their course, with the possible exception of takeovers financed by state-controlled corporations. NDP opposition to this trend may be almost axiomatic. However, Jack Layton gave relatively little attention to the issue during the same period.

It took some 15 months for the federal Liberals to discover the takeover issue after returning to opposition. Liberal leader Stéphane Dion initially raised the issue in April 2007 as part of a broader attack on Conservative tax policies that had removed preferences for income trusts and curtailed interest deductibility for loans used to finance foreign operations. However, the Liberals did not take a clear stand on foreign takeovers, per se, until the end of May 2007, when they called for a three-month moratorium pending a review of the Investment Canada Act. Liberal Finance critic John McCallum called for changes providing for a "reciprocity provision whereby foreign acquirers from restrictive jurisdictions might face greater hurdles than acquirers from more takeover friendly jurisdictions," while "acknowledging the benefits of foreign investment" and affirming support for policies conducive to "growing Canadian champions" (Chase, 2007b; McCallum, 2007).

The Harper government took its time in responding to these initiatives—taking measured steps to regain control of the debate as market conditions changed while decrying calls to "micro-manage international investment flows" (Vieira, 2007a). As early as October 2006, it was sending signals of its intention to deal with national security-related concerns arising from the investment activities of foreign state-controlled corporations. In July 2007, it appointed a panel of senior business executives to examine competition policies, their effects on takeovers, and related issues of foreign investment policies. In October 2007, newly appointed Industry Minister Jim Prentice again announced plans to introduce rules governing takeovers by state-controlled firms. His comments, emphasizing the need for transparency and reciprocity, suggested that the government was carefully looking for middle ground while deferring action on broader issues.

> Our government's concern is not with the ownership of the foreign capital being invested in this country, but rather with how that capital behaves in the marketplace. Our interest is ensuring that state-owned enterprises in Canada are operating under the same standards as any other commercial enterprise operating in Canada, including those related to transparency, good governance practices and whether they operate according to free market principles. (Prentice, 2007)

Prentice's subsequent veto of Macdonald Dettwiler's sale of its aerospace division to U.S. interests, noted above, the first such use of the Investment Canada Act since its passage in 1985, appeared to be somewhat at variance with these principles. However, Ottawa's heavy investment in the firm's technologies and concerns over the government's capacity to access imaging data from the company's satellite to enforce its claims to Arctic sovereignty, an issue central to the Harper government's broader agenda—focused the public debate on issues of national security as an expression of sovereignty (Silcoff, 2008; Carmichael, 2008).

A series of subsequent policy announcements, including wide-ranging tax reductions announced in Finance Minister Jim Flaherty's economic statement of October 2007 and the Competition Policy Review Panel's (2007) consultation paper, released the same day, appear to follow a similar balancing act. These initiatives reflect principles outlined by Roger Martin and Gordon Nixon several months before: making Canada's corporate tax regime more competitive; regulation of foreign investment based on "reciprocal treatment"; using regulatory leverage to increase benefits from major takeovers; supporting the development of internationally competitive Canadian businesses (while acknowledging the limitations of such a process); and addressing a variety of other regulatory options (2007).

The consultation paper signalled that any changes to federal foreign investment policies are likely to be incremental and directed towards strengthening the international competitiveness of Canadian-based multinationals. The review panel structured its work under four broad themes (2007: 2–3). The first, "investment policies," acknowledged the benefits of FDI with a review both existing "net benefit" tests and sectoral regimes restricting foreign investment. The second, "competition policies," avowed the goals of "serv[ing] the interests of domestic consumers and enabl[ing] our most successful enterprises to grow beyond Canada," although the Panel's final report tilted strongly towards the latter. The third, "outward investment," reflected a mandate "to examine what policies would enhance Canada as an environment from which Canadian enterprises would emerge and prosper globally." The fourth sought to position Canada "as a destination for investment and opportunity."

> The objective should not be to insulate Canada from global competition. Rather, the goal is to ensure that the Canadian economic policy framework positions Canada and Canadian enterprises to compete globally ... to maximize opportunities for our domestic firms to grow into global champions and for our existing champions to further expand their reach. (2007:4)

Much of the Review Panel's final report in June 2008 reflected the neoliberal economic analyses discussed elsewhere in this article, if very much from the perspective of its members as current or retired corporate executives. On balance, it sought reductions in barriers to new foreign investment in Canada, while expanding the discretion of corporate boards to resist hostile takeover bids. It proposed increasing the review threshold for foreign takeovers from the current $295 million to an indexed $1 billion in "enterprise value", negotiating reciprocal liberalization of sectoral restrictions on foreign investment, and limiting the powers of the Competition Bureau to monitor and restrict mergers under the Competition Act. In response to the recent wave of takeovers, it recommended shifting responsibility for monitoring the responses of Boards of Directors to such bids from provincial securities commissions to the courts (Competition Policy Review Panel, 2008). The Panel did not go as far in its reasoning as the Quebec Court of Appeals, which sought to rewrite securities laws to make directors responsible to a broader range of stakeholders in its May 2008 ruling on the BCE takeover, before itself being reversed by the Supreme Court of Canada (Rousseau, 2008; MacIntosh, 2008). However, it urged governments to enhance the autonomy of corporate boards (and, by inference, their senior executives) from shareholders on the model of U.S., specifically Delaware, corporation laws. The Panel also recommended a wide range of complementary policy initiatives in other fields—many of them beyond the federal government's jurisdiction or control.

Although many of the Panel's recommendations echo or suggest incremental extensions to the recent policies of the Martin and Harper governments, it remains to be seen whether either provincial or federal governments are prepared to reverse almost a decade of post-Enron reforms to corporate governance in the interests of protecting corporate executives from hostile takeover bids. The Supreme Court's detailed reasoning in *BCE vs. A Group of 1976 Debentureholders et al*, which is pending as this article goes to press, is likely to shape the context in which these questions are answered. In the short term, so are the realities of minority government, despite relatively minor differences in emphasis between the economic policy preferences of the federal Conservatives and Liberals.

Conclusion

A generation ago, the record wave of foreign takeovers of Canadian-based firms experienced in 2005–2007 would have prompted significant political turmoil. However, the relatively muted political and media reaction to these events was heavily conditioned by recognition of Canada's economic interdependence with other countries and the growing role played by its multinationals in foreign markets.

Twenty years after the Mulroney government replaced the Foreign Investment Review Agency with Investment Canada, foreign investment policies are designed primarily to attract new investment rather than screening it or aggressively attempting to negotiate spin-off benefits for Canada. Incremental changes to these policies by the Chretien and Martin governments of 1993–2006 more likely to loosen such regulations than to tighten them. Today's critics of such policies are as likely to lament the extent of sectoral restrictions on foreign investment in the banking, transportation, and telecommunications sectors as they are to condemn the "sell-out" of corporate assets or Canada's failure to produce national corporate champions, as seen from initial responses to the Review Panel's report (Foster, 2008, Whittington and Brennan, 2008).

At the level of political economy, the revival of nationalist discourse has been challenged as representing the self-interest of corporate elites as much or more as the assertion of vital national interests. Ownership profiles appear to have little impact on corporate behaviour in the marketplace. If anything, the diffusion of equity ownership has gone a long way towards aligning the interests of much of the Canadian middle class with those of whichever groups of corporate executives and financiers can maximize the value of their retirement savings, as illustrated by media responses to prolonged corporate and legal manoeuvres surrounding the BCE takeover.

Workers' interests are best served by effective management that will invest capital and organize resources to enhance productivity in ways that provide greater competitiveness, enhanced job security, and higher wages. Governments are collecting a substantially larger share of their revenues from corporate income taxes than they have in 25 years, even when adjusted for the vagaries of the business cycle (Canada, Department of Finance, 2006:13), although federal tax changes proposed for the next five years may reverse this trend. These analyses provide powerful incentives for Canadian governments to negotiate the reciprocal investment protection and promotion agreements (FIPAs) with foreign governments that are becoming an increasingly common element in their international trade policies.

These changes point to a remarkable transformation in Canada's economy and its political discourse during the past generation. Absent an unforeseen breakdown in the current economic system, current trends towards the incremental liberalization of foreign investment policies, balanced by measures to secure reciprocal measures from foreign governments and discipline the market behaviour of state-controlled or influenced foreign firms, appear likely to persist as long as significant numbers of Canadians continue to benefit from them.

Note

1 The total assets of Canada's seven largest broader public sector pension fund management groups totaled almost $600 billion in early 2007, about one-third of the capitalization of Canadian stock markets.

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