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Why Foreign Ownership Still Matters in 2008

Submission to Competition Policy Review Panel

By Mel Watkins, Research Associate, Canadian Centre for Policy Alternatives

On July 12, 2007, after a spate of takeovers of Canadian companies by foreign companies that made headline news, the Canadian government announced a Competition Policy Review Panel of five persons, all with business interests, to review Canada's competition and investment policies. The Panel invited submissions from interested parties, with a deadline of January 11, 2008. The Panel is to report to the government by June 30, 2008.

Why does a panel dealing with foreign ownership not have "foreign ownership" in its name?

It would seem obvious that this Panel was named in the aftermath of a splurge of takeovers of Canadian companies by foreign companies. Granted, the Panel is mandated to consider the *Competition Act* as well as the *Investment Canada Act*, but somehow the terms "foreign ownership" and "foreign investment" are missing from the Panel's title.

There is a clear implication that the issue of takeovers of Canadian companies by foreign companies is to be understood as a matter of competition, and only of competition. Why not, for example, the Sovereignty Review Panel? (If this seems to be making too much of words, it does leave the question of why this particular title was chosen. It would be naïve to think that the government which so named it, and so carefully manages everything it can, did so in a fit of absent-mindedness.)

It is hard to escape the view that the Panel may have been designed in such a way that it can more easily make the case that "competition" is now to be understood as taking place at the global level rather than the domestic level; that the bigger the firms the more capable they will be of competing; and that takeovers, or mergers and acquisitions, are therefore inherently good—though this sounds much more like monopoly, or oligopoly, and market dominance than it does like the competitive markets so lauded by orthodox economics.

Whatever the merits of such consolidation from a corporate or management or shareholders' perspective, there is no compelling reason to infer that consumers will experience the benefits, though that is supposedly the object of the exercise. Hence, the tendency of consumers' groups, persistently and rationally, to oppose mergers and monopolization.

"Competitiveness" is a loaded concept of limited analytic use

The thread that permeates the Consultation Paper, which essentially frames the document, is not "competition," a common word of long-standing, but "competitiveness." That word is, like its twin, "globalization," a new and trendy word that obscures as much, if not more, than it informs; in honour of these neo-liberal times, it might be called a neo-word. It is very much part of the discourse of the corporate world, and the associated worlds of international bureaucracies (like the OECD and the World Bank) and of faculties of management studies — though in every category there are individuals who are independent thinkers. It is the language of power. It is not a concept with historical roots in the world of scholarship, whether it be in economics or in political economy.

The American economist Paul Krugman, who has an impressive publishing record within international economics and is highly distinguished within his profession, says bluntly that, so far as nations are concerned, "the doctrine of 'competitiveness' is flatly wrong" — a concept applicable to firms inappropriately applied to nations. Krugman's major point is that the concept ignores the straightforward fact that most of a country's production is of non-traded goods and services where "competitiveness" vis-à-vis other countries is irrelevant.

As well, the famous law of comparative advantage demonstrates — under the appropriate assumptions that economists are wont to make — that all countries trade to their mutual advantage and are therefore necessarily "competitive." The word "competitiveness" does not appear in the index of the encyclopedic and much-acclaimed 650-page study of world economic history, David Landes' *The Wealth and Poverty of Nations: Why Some are so Rich and Some so Poor*.

The Panel seems to be unaware of such criticism, and has risked buying a pig-in-a-poke that is not a reliable guide to policy. Orthodox economic theory has enough problems as it is without it being vulgarized. The much-publicized indices of competitiveness too often read like wish-lists of what business wants government to do and not do — like lowering corporate taxes and income taxes on the rich, e.g., CEOs of big companies. *Their* gains are clear; there is no guarantee that the country or the majority of its citizens benefit.

And if you "build the field" to corporate specifications, it is assumed, first, that they (the foreign investors) will come, and, second, that so-called "synergies" will result and trickle down to the benefit of all concerned. As arguments go, it is both doubly tenuous and self-evidently self-serving of corporate interests.

The role of resources in Canadian economic growth

When Canadians look around today, they can hardly be unaware of the profound impact on the Canadian economy of the world-wide commodities boom, but there is nary a mention of that in the Consultation Paper. Nor is there any evidence from that Paper of any awareness that the long history of Canadian economic growth is intimately related to a succession of booms around resource, or staple, exports, with their linkages effects, for good or bad, on the rest of the economy. (Read the classic writings of the Canadian economic historians H.A. Innis and W.A. Mackintosh, whose legacy is the staples approach to Canadian economic growth.)

Now, a possible reading of this story is that Canadian business is at its best — or should be — when it thrives on the strength of the export boom in resources: specifically, that Canadian companies emerge as "national champions" in sectors where Canada has its comparative advantage. Think of it as combining David Ricardo on comparative advantage and Joseph Schumpeter on entrepreneurship, or as one of Albert Hirschman's "easier" linkages or opportunities for domestic entrepreneurs. If one is going to play the capitalist game, it might seem obvious that one ought to have one's own capitalists the better to play it.

A striking feature of the present wave of takeovers of Canadian companies is its concentration in the resources sector. The boom in commodity prices has created liquidity in the resource sector that feeds takeovers. Companies either use that liquidity to do takeovers, or they get taken over themselves. It is a case of eat or be eaten. In a way that is hard to fathom, Canadian resource companies, some of long standing, have been ending up as the icing on someone else's cake.

A necessary digression: What's wrong with Canadian business?

There is a large question here that is rarely posed in a serious way about what exactly is wrong with Canadian business. It becomes tiresome endlessly to be told by business interests that the problem is not theirs, but rather that the business environment is not favourable—this in spite of the fact that big business in Canada has consistently gotten its way around freedom of trade and investment, and when that doesn't work well enough, simply insists on more of the same.

Free trade with the United States was supposed to close the productivity gap in manufacturing; now the fact this has not happened seems poised to become the rationale for eliminating remaining restrictions on private foreign investment.

Foreign ownership has played a significant if not dominant role in the Canadian political economy for centuries, and certainly for the last century. The Canadian economy has done as well, or as ill, as it has within that constraint. If it has problems today, as in the productivity gap vis-à-vis the American economy, it is hard to believe that yet more foreign ownership would eliminate them. On the face of it, more and better Canadian ownership with *less* foreign ownership would seem a better bet.

Economic historians and political economists have long argued that the dominant interests within Canadian business are the financial institutions and the resource industries, with the latter typically dominated by foreign owners the better to secure access to foreign markets; these are the interests behind the powerful big business lobby, the Canadian Council of Chief Executives. Not surprisingly, manufacturing gets neglected. There is no good reason to think that more foreign ownership would solve this deeply rooted problem.

Indeed, the foreign ownership question and the apparent inadequacies of Canadian business need to be located within the broader context of Canada's status within a succession of empires, French, British and American. The literary critic Northrop Frye wrote in 1971 that Canada was "a pure colony, colonial in psychology as well as in mercantile economics."

There has been a long tradition of state-owned enterprises, a.k.a., as Crown corporations in this country—the CNR, Ontario Hydro, Polymer, et cetera—with enviable reputations for innovation, such that it is possible to talk positively of a public enterprise culture. That has been lost in recent decades, though state-owned firms and funds are once again in vogue (see below) and should be seriously considered by Canadians as alternatives to foreign ownership.

The case for Canadian resource sector policy

Given the long history of the special importance of resources to Canadian economic development, the absence of national sectoral policy favouring Canadian ownership is odd and unfortunate. There is such a policy with respect to uranium for security reasons and, given the risk of proliferation of nuclear weapons, it can be presumed that the Panel will not advise altering that.

Given the central importance of energy in general and of oil and gas in particular to the security of citizens in the emerging world, it would make eminent sense for the Panel to broaden the present list of sectors reserved for Canadian owners, the better to facilitate Canadian regulation.

At a time when most energy-endowed countries have state-owned enterprises in the oil and gas sector—in 1970 international oil companies controlled 85% of the world's oil reserves; today state-owned oil companies control 80% of those reserves—the Panel (or the federal government itself if it has now totally pre-empted this matter), rather than only considering what Canada should do about other countries' state enterprises, ought to consider having Canada follow the same route.

The wave of privatization may well have peaked globally and the state is re-asserting itself as an economic, even entrepreneurial, actor. The modest efforts of the Newfoundland government to build a small ownership stake in future offshore projects owned by foreign companies have been resisted by the federal government; this is consistent with the argument that foreign-owned resource companies have excessive influence on the federal government. Norway, a smaller country than Canada but with a similar resource-biased economy, has been able to build a strong state presence and get a much larger share of oil and gas revenues than do Canadian governments.

In the light of present oil and gas prices, it would be interesting to calculate what PetroCanada would be worth today as a public enterprise and how Canadians in general would be reaping windfall gains from public ownership. Certainly, a case can be made for public ownership, or Crown corporations, over private ownership and private foreign ownership, in particular in oil and gas. Crowns have a commitment to stay in Canada and prosper here. They can be given broader mandates than those imposed by private ownership: on climate change, on Canadian energy security, on appropriation of economic rents, on diversification beyond resource extraction. Diana Gibson of Parkland Institute in Alberta makes the brilliant point that there are lots of state-owned companies in our tar sands — the problem is that none of them are Canadian.

A sectoral regime in oil and gas, by emphasizing Canadian responsibility, would have the further and critically important virtue of facilitating national regulation of the sector, a matter of urgent necessity for Canadians and everyone else in the face of global warming.

Why can't Investment Canada ever say No?

The Canadian experience strongly suggests that the most effective way to minimize and constrain foreign ownership is by sectoral regimes — and that is a major point being made by this submission — but this is not to say that there is no role for an overall regulatory agency. The Foreign Investment Review Agency, in spite of its limited success in facilitating Canadian ownership, was stood on its head and converted into Investment Canada, with a mandate mostly to shill for more foreign ownership. While an occasional application for approval from Investment Canada is withdrawn or altered, and while undertakings are given by some applicants to the government but not to the public, no application has been rejected in the history of Investment Canada. Investment Canada has given a whole new meaning to "Buy Canadian."

Investment Canada should be retained, but with the understanding that its activities are transparent and public, and when conditions are imposed there is effective monitoring and follow-up. But there can be no pretence that Investment Canada, certainly in its present form, and not even in a more credible form, is an alternative to sectoral policy.

The case for present sectoral regimes

Existing sectoral regimes — in banking and financial services, telecommunications, broadcasting, cultural industries, airlines — appear to have been successful and should be maintained. If it ain't broke, don't fix it — and where, from the perspective of the public interest, is the evidence of breakage? Canadian banks have high rates of return and have been active in direct investments abroad, notably in the U.S., which suggests that it is not necessary to have domestic mergers for that to happen. Any policy that would put the Canadian financial sector under American ownership seems foolish in light of the recent excesses of American institutions. Nothing should be done that risks further weakening the hand of Canadian regulators. Lest putting the financial sector off-limits in today's world seems old-fashioned and out of step with the times, China does not permit or countenance majority equity ownership by foreign interests in its banking and financial services industry.

On the closely related matters of culture and communication, what is at issue, living next door to the United States, is their survival within Canada, and of an independent base for the creation of Canadian culture for export. The vital role of transportation and communication in defining the nation itself is a commonplace of historical scholarship — and should be respected as one of those famous lessons-of-history.

The ability of economists in the employ of the IMF and the OECD to "diss" any and all Canadian sectoral restraints in the name of deregulation — as reported in the *Globe and Mail* (RoB December 20 2007) — is an appalling example of intellectual imperialism that threatens to give economics itself a bad name. The IMF and the OECD have important functions to fill, but issuing *dicta* of the one-size-fits-all variety should not be one of them, and shows a lack of understanding of, and respect for, each country's distinct political culture.

It seems bizarre to call for less regulation in the financial sector at a time when the sub-prime mortgage imbroglio in the U.S. is reverberating around the world, creating costs for many people and companies and countries, with a rising chorus of voices wondering why the Fed sat on its regulations when this was happening; American ownership of Canadian financial institutions would have facilitated the spread of American malpractice into Canada.

To quote James Gillies, Dean emeritus of York University's Schulich School of Business (RoB Magazine, January 2008): "We need to assure that firms considered strategic to the development of our economy are not taken over. The markets alone will not provide the optimal solution. If we relied on markets alone to determine our economic destiny, this country would not exist."

BCE and Alliance Atlantis takeovers as apparent end runs around Canadian ownership rules

The immediate threat with respect to telecommunications and the cultural industries is the role of U.S. private equity firms in facilitating takeovers of Canadian companies in partnership with Canadian interests that appear to have the potential of constituting an end-run around Canadian ownership rules: that is, that Canadian owners are in control *de jure* but foreign owners may be in control *de facto.* Two major cases in point are the takeovers of BCE and of Alliance Atlantis.

The CanWest takeover of Alliance Atlantis, in conjunction with U.S. investment bank Goldman Sachs, received CRTC approval after some restructuring, though considerably less than critics thought necessary to assure that control was definitively in Canada. The Communications, Energy and Paperworkers, which represents workers involved, says bluntly that the deal "skirts foreign ownership regulation." It is certainly clear that every deal of this kind must be carefully scrutinized and unfortunate that the first case has been approved, establishing a very bad precedent.

The BCE takeover is by the Ontario Teachers' Pension Plan and U.S. private equity firms Providence and Madison Dearborn. Claude Lamoureux, the CEO of Ontario Teachers when the deal was struck, "noted," according to the *Globe and Mail* Report on Business last October 2, "that, while Teachers supplied the bulk of the Canadian equity for the buyout, it will rely heavily on the operational savvy of Providence and Madison Dearborn, both of which have experience in the telecom sector."

Mr. Lamoureux had previously told the *Globe and Mail* on September 27: "We bring the money and the Canadian content. Our partners bring knowledge of the phone business." All of which, from the lips of the master himself, sounds like foreign control, in violation of sectoral regulations. This begs the question of why Canada is so deficient after all this time in "the knowledge of the phone business" that we have to go this route.

The corporation as commodity

The further issue raised by this relatively novel phenomenon of the pervasive involvement of private equity firms in takeovers is what difference it makes to how we explain and assess foreign direct investment. Since Stephen Hymer's pioneering work in the 1960s, direct investment has been understood as a firm with an advantage, say, in technology, establishing a firm abroad in the same business, or taking one over, the better to transfer that advantage while maintaining control. Benefits and costs to the host country can then be assessed within that context. This model is, by and large, still the relevant one for the busy, hyper-active, resource sector.

But what we now see happening is a world in which companies themselves become commodities to be bought and sold in financial markets. It is no longer self-evident as to what the rationale is from the buyer's point of view. In the first model, the acquiring firm can be presumed to intend to operate the new or acquired firm indefinitely. In the new model, there can be no such presumption.

For a private equity firm, financial investments come and go. The acquired firm may be bought for the purpose of shaking it up, restructuring it, breaking it up and selling the parts. In some cases, it may even degenerate into asset stripping. The acquiring firm and its shareholders may well benefit from that, but there would seem to be less assurance in this new model that the host country and its workers will benefit. It would seem essential to have a regulatory regime able to distinguish between investment *per se* and predatory behaviour.

It is possible that the major benefactors of much of this activity are the financiers themselves and those who live off mergers and acquisitions. In the face of the present credit crunch, mergers and acquisitions have fallen off sharply, suggesting that they are driven more by global credit conditions than by the "synergies" of scale customarily alleged.

It is not clear that policy-makers in host countries have given sufficient attention to these possibilities. None of this is even alluded to in the Consultation Paper.

What's wrong with state-owned firms and funds?

There is also, in recent times, the phenomenon of state-owned firms and sovereign wealth funds and the question of whether they may not behave differently than private sector firms and equity funds. There may be reason for some concern here, but it is easily overstated and subject to misuse. State-owned firms (as already noted) are common now in oil and gas; their exclusion may simply favour privately-owned firms.

Excluding state-owned firms would rule out full participation in the global economy of China. China would be free to trade (as we insist), but not to invest. That sounds like the very politicizing of economic transactions that we claim to be concerned about with respect to China. Some commentators argue that the state-owned firms of developed countries may not be a problem but those of developing countries could be, but that threatens to be a way of discriminating against the less affluent countries and of risking the charge of racism.

There would also seem to be a certain hypocrisy involved. Were China to mix foreign investment decisions and foreign policy, it would not, frankly, be a novel event on the part of a superpower. In the past, U.S. firms operating abroad have been issued government directives about remitting earnings from subsidiaries and about their subsidiaries not trading with Cuba, both to Canada's detriment. There is also the notorious and well-documented case where the U.S. government (State Department and CIA) collaborated with the American multinational giant IT&T to overthrow the democratically elected government of Chile, to the financial advantage of IT&T. In the United States today, there is a clear mixing of foreign policy and foreign investment with respect to oil.

Countries with economies dominated by private-sector companies, notably the United States, need to make sure their own houses are in order; host countries like Canada need to be cognizant of inappropriate state interference or undue corporate influence on the state, whether foreign investors are state- or privately-owned.

Having failed to play the private capitalist game in a sufficiently serious way, Canada now seems destined to miss its chance to be an active player in the sovereign wealth fund game, now arguably the most important game in the global village. Imagine what the Canada Development Corporation would be today if it had been seen as an embryonic sovereign wealth fund seeded by the economic rents that inhere in resource exploitation, too much of which has drained out of the country under the aegis of foreign ownership. Less foreign ownership in resources would have facilitated less foreign ownership in the rest of the economy. As well, there is something ironic about the savings of "ordinary Canadians" in pension funds being used to further the mergers-and-acquisitions game that is so uncertain in its benefits for them.

Hollowing out of decision-making

The sea change in recent times is arguably the evolution of the multinational enterprise itself and the consequences of this for a subsidiary and its host country, a development that has been ably described by the Canadian legal scholar Harry Arthurs. The origins of foreign direct investment lie in the creation of branch plants as "miniature replicas" of their parents; in part because of lesser scale economies, these branch plants tended to be less efficient than their parents and to require tariff protection. Over time, the pattern has shifted to subsidiaries with "world product mandates," within "global value chains," able to thrive in a free trade environment.

This has had important consequences for the quality of decision-making by the subsidiary. There is no question that in both cases there is a kind of "hollowness" for the host country inherent in the arrangement. The Watkins Report (1968) and the Gray Report (1972) documented the economic costs of the miniature replica effect at the micro level and the truncation of the Canadian economy at the macro level. In the branch plant case, the subsidiary served its domestic market, with its inefficiency protected, and managers of the subsidiary could be given considerable autonomy vis-à-vis the parent. In the world product mandates case, the subsidiary serves world markets and must be efficient. Its operations must fit into, be subordinated to, and be coordinated with the total operations of the multinational enterprise and its unified business structure and culture. The subsidiary may well be kept on a tighter leash than before, a process facilitated by greatly improved means of communication.

A particular variant of this results for Canada from the North American Free Trade Agreement (NAFTA). In the branch plant case, the Canadian operation of the American parent warranted, physically, a Canadian head office. With free trade, the corporate structure could be rationalized on a North American basis with a single head office in the U.S. David Crane of the *Toronto Star* has documented a number of cases where this happened.

There is certainly evidence from Arthurs's research of the deterioration of corporate governance structures within Canada, with the likelihood that the more pervasive control from the centre may spill over into decisions on legal and accounting and software services, advertising agencies, consultants, and charitable donations, and that some of these will gravitate to the parent's country to the detriment of the host country.

It is this structural alteration, and apparent deterioration, in the quality of decision-making that passes by the name of "hollowing out" of the corporate structure and of the business culture of the host country. It is, admittedly, hard to quantify; it has eluded the researchers at Statistics Canada in their counting of the number of head offices and the number of head office jobs. It is difficult for any researcher without business connections to do the broad-gauged research that is necessary, while research not done at arm's-length from business organizations needs to be used with caution.

Research in this area would also benefit from more complete and timely foreign corporate reporting requirements and more timely and comprehensive analysis by Statistics Canada; in fact, there has been a deterioration in these regards in recent decades.

The Panel's Consultation Paper demonstrates a concern about "hollowing out," but doing credible original research on it may well be the largest challenge that faces the Panel.

Concerned Canadian business leaders

As the Panel is undoubtedly aware, there are important persons within the corporate world who have insider knowledge at a high level and have expressed concerns about hollowing out: Gerry Schwartz, CEO of Onex Corporation; Peter Munk, founder of Barrick Gold; Dominic D'Alessandro, Manulife Financial; Gordon Nixon, CEO of RBC; Dick Haskayne of oil and gas fame; Tom Caldwell of Caldwell Securities; Bombardier executives. Some advocate tough policy. Haskanyne asks why, if no one can own more than 20% of a bank, the same rule isn't applied to oil and gas. Nixon is reported as saying that, "if the banks do not have ownership restrictions, they'll be gone;" he went on to suggest that "[t]he new owners would likely run Canadian banks by remote control from enormous head offices and information centres outside the country [and] top jobs would disappear and urban vitality would suffer."

Indeed, we now seem to be seeing more dissent within the business community than there was during the debate about free trade, and even relatively more business critics of foreign takeovers today than there were business supporters of Walter Gordon in the 1960s. It remains to be seen, however, to what extent these dissenters are willing, as it were, to walk the talk and put heat on the Harper government.

Foreign ownership has long been a factor, even a dominant factor, within the Canadian business culture, and the mentality of "open for business" is deeply embedded. The Canadian Council of Chief Executives (CCCE) has a stronger presence of foreign-owned companies than was true of its predecessor, the Business Council on National Issues. It is not unusual to hear the argument that restrictions on foreign takeovers would usurp the right of Canadian business to sell out to the highest bidder—an odd notion of the rights of citizenship. There is always the risk that a nod will be made toward the possibility of hollowing out, the better to push the view that Canada must be made more competitive as a home for head offices by cutting corporate taxes, et cetera.

In fact, Canada is not a developing country deficient in capital and education. It is, frankly, not clear why we have such an apparently bottomless need for foreign direct investment. It would seem, rather, that we have a business class, and governments beholden to them, unable to shake off a colonial, complacent, attitude.

A hollowing-out effect on Canada from Canadian investment abroad

The argument is properly made that "hollowing out" from inward investment might be offset by "filling in" from outward investment by Canadian firms. But there is still a problem. There has been some evidence for some time of a tendency of a company headquartered in a smaller country, say, Canada, which successfully penetrates the market of a larger country, say, the United States, finding its head office functions shifting to the larger country. *De jure* its head office will be in Canada, *de facto* it will be in the United States.

In fact, Thomson enterprises, which is often cited as an example of a Canadian-based company that has gone abroad successfully, has most of its head office functions in Stamford, Connecticut; *Globe and Mail* columnist Margaret Wente describes Thomson as "Canadian in name only." In its heyday, Nortel had its head office in Brampton, Ontario, but its executive office was in Dallas, Texas. Statistics on jobs in head offices should capture this, but would still be most misleading on the matter of the hollowing-out of decision-making in Canada.

A very recent 2007 study for the New Zealand Treasury (*Sunday Star Times* December 16, '07; posted stuff.co.nz) shows that, as its companies penetrate markets abroad, they relocate key components of the supply chain offshore, and this sets up a self-reinforcing process as head offices follow manufacturing facilities. There is little, if anything, small countries can do about this within the existing rules of the game.

Another necessary digression: The impact of Canadian investment abroad on human rights and the environment

The human rights and environmental impact of Canadian resource companies abroad, particularly in mining and oil and gas exploration, though a matter of considerable discussion in the media and within NGOs and universities, is not even posed as a question in the Consultation Paper, though how to encourage more Canadian direct investment abroad, presumably including in mining and oil and gas exploration, is.

The bottom line on hollowing-out

The issue involved here overall is a deeply troubling one that defies any easy solutions by anyone, including this Panel. Takeovers or mergers and acquisitions are about the increasing consolidation and concentration of capital. We need to heed Arthurs's warning: "By intensifying concentrations of economic power within and around transnational companies, globalization may...contribute to a hollowing out, not only of business communities, but also of cities, regions, and countries around the world."

Geographer Meric Gertler tells us, with respect to financial services, that: "The growing concentration of activity in centres like London and New York has generated so much momentum that it threatens the future viability of second-tier financial centres like Toronto and Chicago...[t]he degree of geographical clustering in advanced financial services has become more advanced over time..." (*idea&s* Autumn 2007)

What may be at issue is not only the hollowing-out of the Canadian corporate culture, but the hollowing-out of the Canadian polity—and the polities of many other countries. It would seem unwise to advocate policies that would facilitate the further concentration of global capital, and thereby increase our disempowerment.

9/11 and the thickening of the American border: The need to rethink North American economic integration

And then came 9/11, and in its aftermath the U.S.-led War on Terror and American Homeland Security. The U.S.-Canada border, which was said to be disappearing in the new age of "globalization," suddenly thickened. The project of an economically integrated North America no longer made the same easy sense, though Canadian business and the Canadian government have been reluctant to admit this. So has this Panel.

The Question put by the Panel as to how Canadian policies should be changed to better reflect Canada's increased integration into the North American economy misses the point as to what is happening: namely, that further North American integration is impeded by U.S. border policies which seem likely to prevail indefinitely. International Trade Minister David Emerson, as recently as December, deplored this creeping thickening and the weakening of cross-border supply chains, but could only plead that Washington stop what it is doing.

Despite NAFTA, the U.S. government has unilaterally taken these border-thickening measures with slight consultation and little if any forewarning; it has done so despite Canada bending over backwards to harmonize its security and intelligence policies, with highly adverse consequences for Canadian sovereignty and civil liberties.

The better question for the Panel may be at what point the Canadian government and Canadian businesses should spend less energy banging their heads against the American border and more on developing opportunities elsewhere—though in the process we should avoid signing any more agreements of the NAFTA variety that tie the hands of governments while further empowering corporations.

Beyond that, such integration may well be less necessary for Canada. The U.S. is losing weight within the global economy; it makes sense for Canada to adjust accordingly. Efforts in the past to diversify trade away from high dependence on the U.S. by both the Diefenbaker government and the Trudeau government failed, but the times are now different.

Global warming and the case against mega-corporations

The most bottom of all lines on all this, the final word as it were, is the awesome and awful prospect that we face in terms of climate change. This is especially burdensome for Canada because the development of the tar sands very probably carries the largest and most destructive ecological footprint of anything in the world. It seems unlikely that we can indefinitely get away with business-as-usual, with putting policies to do with global warming off in some separate box, with everything else going on as before.

Indeed, is there not now a compelling argument to be made against mega-corporations, or monster corporations, with their global reach? In their wake comes more international trade, more international investment, more transportation of goods and services, more business travel. But that adds up to more carbon emissions and more global warming.

Is there now a credible case for beginning to de-link from the global economy, of opposing mergers, acquisitions and takeovers that cross national borders—of at least beginning to recognize the need to move in that direction?

Economist John Maynard Keynes famously wrote in 1933:

> "I sympathize...with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel—these are the things which of their nature are international. But let goods be homespun wherever it is reasonably and conveniently possible, and, above all, let finance be primarily national."

The "moment of truth" may now have arrived—and science and good sense are telling us that we may not have much time to start doing better. The least we should do is not make things worse.

Mel Watkins *is Professor Emeritus of Economics and Political Science, University College, University of Toronto, and Adjunct Research Professor, Institute of Political Economy, Carleton University. He was the chief author of the 1968 federal government report on Foreign Ownership and the Structure of Industry known popularly as the Watkins Report, which was done under the auspices of the Canadian politician and businessman Walter Gordon.*
This submission is dedicated to the memory of the late Stephen Hymer, who participated in the preparation of the Watkins Report and whose work continues to inform research on foreign direct investment. Professor Watkins is appreciative of assistance from numerous people during the preparation of this submission, but he alone is responsible for the views expressed.