Foreign Direct Investment in Canada: Who's favoured, who's frowned upon?

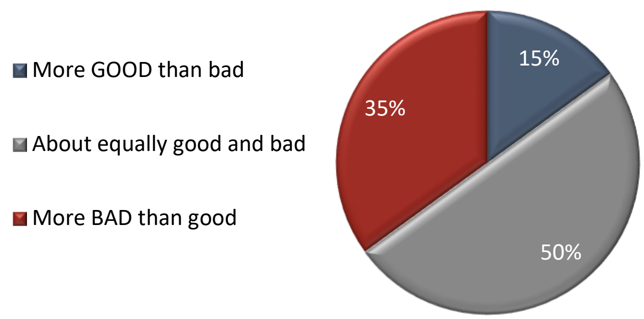
Majorities say Canada should encourage investment from UK, EU, US, discourage from China

September 12, 2017 – As Canada continues to look for ways to deepen its economic ties with the world's second-largest economy, a new public opinion poll from the Angus Reid Institute finds most Canadians feeling either ambivalent or skeptical about Chinese investment in this country, and most would prefer to discourage it in all but a few sectors of the economy – namely manufacturing, technology, and retail.

That said, Canadians are more receptive to Chinese money entering their nation's economy than they are to investment from Russia or the United Arab Emirates.

Criticisms of Chinese investment may – in part – reflect broader uncertainty about Foreign Direct Investment (FDI) overall. This study finds substantial variation in Canadians' willingness to encourage such investments depending on where the money is coming from and what sectors it's going into.

Based on whatever you've seen or heard and your own general impressions, what are your views on Chinese investment in Canada? Is it:



METHODOLOGY:

The Angus Reid Institute conducted an online survey from August 22 – 25, 2017, among a representative randomized sample of 1,505 Canadian adults who are members of the Angus Reid Forum. For comparison purposes only, a probability sample of this size would carry a margin of error of +/- 2.5 percentage points, 19 times out of 20. Discrepancies in or between totals are due to rounding. The survey was self-commissioned and paid for by ARI. Detailed tables are found at the end of this release.

Key Findings:

- Canadians are more willing to encourage investment from the United Kingdom, the United States, and the European Union than from China, Russia, or the United Arab Emirates
- A majority of Canadians (58%) say discouraging Chinese investment would be "worth it to prevent Chinese takeovers of Canadian companies," compared to 42 per cent who say it would be "not worth risking damage to the economic relationship" between the two countries
- That said, more than half would encourage Chinese investment in Canada's manufacturing (53%), retail (54%), and technology (59%) sectors. These three sectors are the most popular ones among the Canadian public for foreign investment regardless of its country of origin

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Index:

Part 1: FDI acceptable from certain countries and in certain sectors

In addition to China, five other countries or regions – the United Kingdom, the United States, Russia, the United Arab Emirates, and the European Union – featured as potential sources of foreign investment in this survey. Respondents were asked about investment from each country or region in each of the eight sectors already mentioned in the preceding section.

The five offer notable points of comparison with China. Like China, the U.S. and E.U. are among the world's largest economies – though the economy of the E.U. will be somewhat smaller once the U.K. eventually departs. Also offered are two nations with considerably less personal and political freedom – Canada's largest Middle Eastern trade partner, the United Arab Emirates, and Russia, a country to which Canada has applied economic sanctions in recent years.

Regarding Canadian opinion on foreign investment, the U.K., U.S., and E.U. appear much more popular sources of venture funding than the other three countries regardless of the industry in question.

That said, there are also notable trends in which sectors Canadians would encourage investment in, regardless of which country would be providing the money.

In general, Canadians are more likely to say they would encourage investment from each nation or group of nations in the retail, technology, and manufacturing sectors. At the same time, they are generally more likely to say they would discourage investment in each of the other sectors canvassed, especially defence and banking.

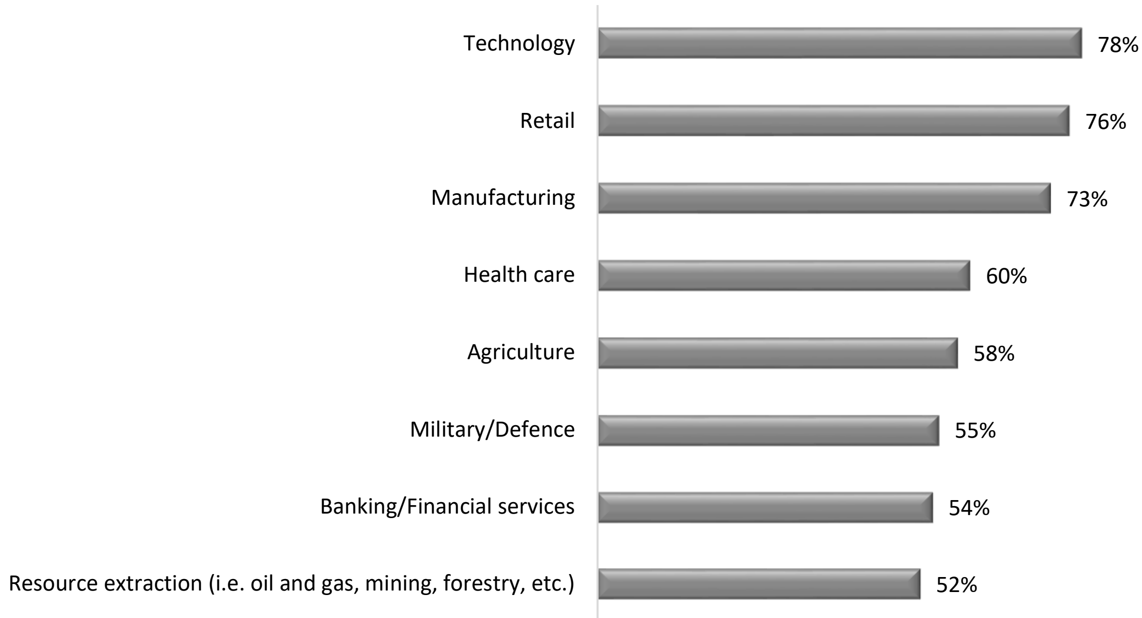
These patterns are reflected in the responses for each sector across each country, as seen in the following table:

Should Canada encourage or discourage foreign direct investment from each country in each of the following sectors? (Those saying 'encourage' shown)						
	UK	EU	US	China	Russia	United Arab Emirates
Resource extraction (i.e. oil and gas, mining, forestry, etc.)	52%	48%	47%	32%	27%	32%
Agriculture	58%	54%	51%	34%	31%	30%
Health care	60%	57%	44%	30%	26%	28%
Manufacturing	73%	73%	72%	53%	40%	43%
Banking/Financial services	54%	47%	42%	26%	18%	27%
Military/Defence	55%	42%	51%	17%	17%	14%
Technology	78%	78%	77%	59%	36%	43%
Retail	76%	75%	73%	54%	40%	45%

Investment from U.K., U.S., E.U. regarded more favourably

While the U.K. will not officially be separated from the European Union until March of 2019, negotiations are underway, and in each of the eight sectors canvassed, at least half of respondents said that they would encourage investment from the U.K. – the only country where this is the case.

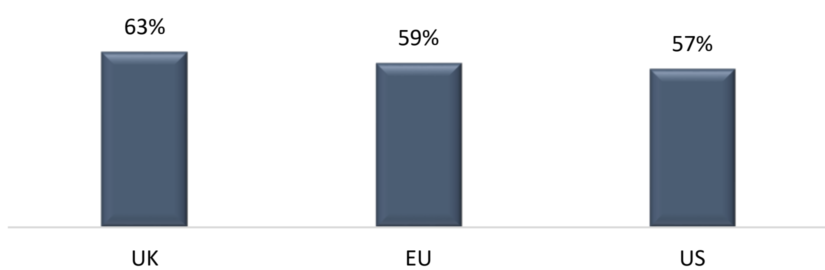
Should Canada encourage or discourage foreign direct investment from the United Kingdom in each of the following sectors?
Summary of 'Encourage' shown



Six-in-ten (60%) say they would encourage investment in health care – notably higher than those who would say the same about American investment in that sector. This, perhaps due to the universal nature of care in Britain.

Looking at the average for each of these responses, the U.K. comes out slightly ahead of the other Western allies, the E.U. and the U.S. This is largely driven by greater acceptance of British investment in Canadian agriculture and health care:

Average "encourage" response to investment across eight different sectors:



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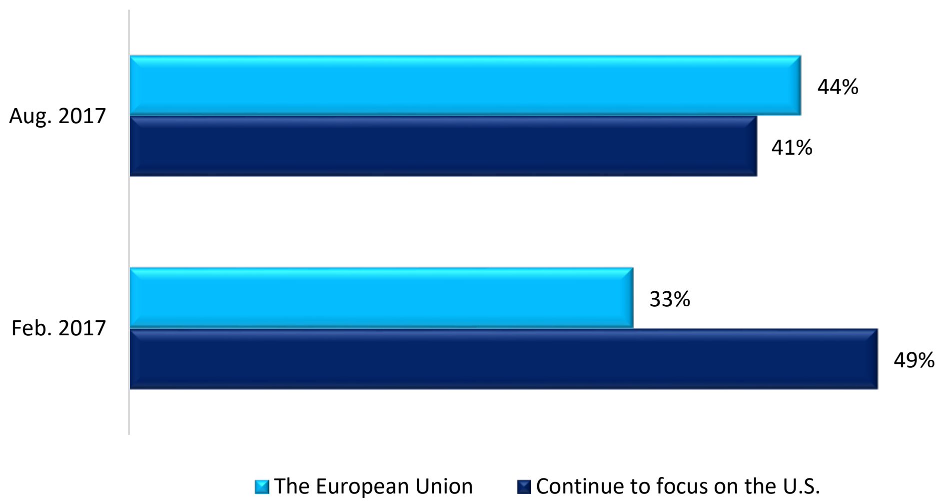
The other negotiating party in the ongoing Brexit talks, the European Union, also receives support as a potential investor in Canadian business. The Comprehensive Economic and Trade Agreement (CETA), set to come into effect on September 21, will ensure that the relationship between these two regions continues to grow, though modestly, according to the Parliamentary Budget Office.

The E.U. is the globe's second largest economy and Canada's second largest trading partner and Canadian preference for engagement with the E.U. is rising. Indeed, likely aided by the negative tone of NAFTA renegotiations, it has now surpassed that of Canada's largest economic connection, the United States in a survey released by the Angus Reid Institute last week:

As we look to the future, with which of the following countries or regions do you think Canada should try to develop closer trade ties?



Defence is the sector that keeps the E.U. slightly below the U.K. in overall average support. Unlike the U.K. (55%) and United States (51%), from which more than half of respondents would encourage investment in military and defence technology, just four-in-ten Canadians (42%) say this of the E.U. This perhaps speaks to some uncertainty among Canadians over just who is in the E.U., an incorporation of 28 nations. Among the other sectors canvassed, responses are nearly identical to those for the U.K.

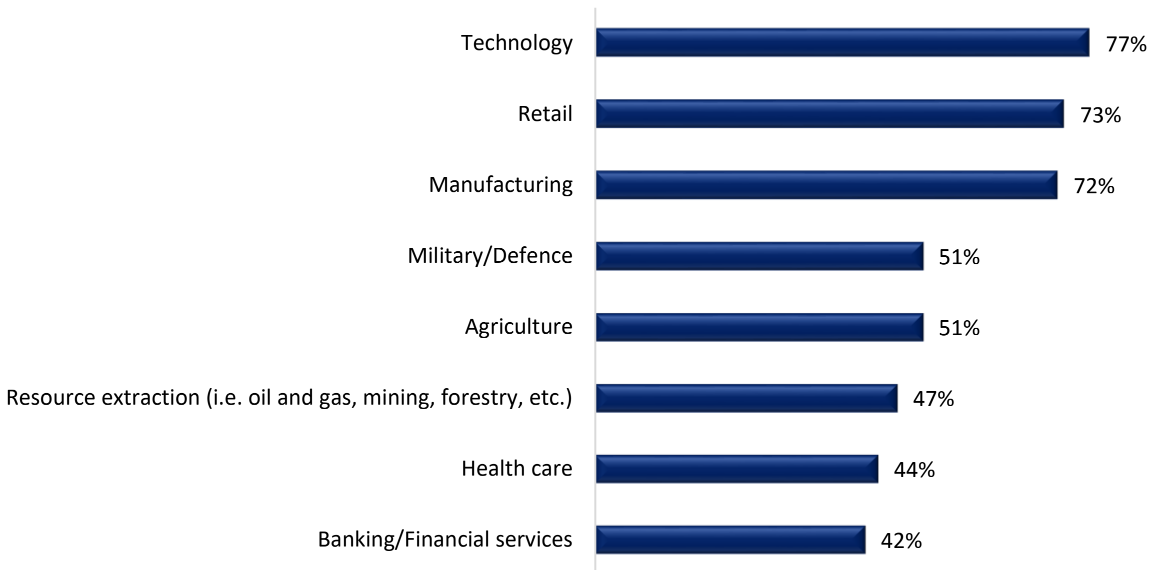
The United States is the destination for three-quarters of Canadian exports, while Canadians' preferred trade focus – the E.U. – accounts for less than 10 per cent.

Once again, Canadians are highly encouraging of investment from the U.S. in the tech, retail and manufacturing sectors. Where opinion of American investment diverges, compared to the U.K. and E.U., is in lower support in health care and banking investment. These two sectors are likely less popular for distinct reasons:

The financial sector may still be suffering in public opinion due to the 2008 recession, caused in large part by deregulation and excessive risk-taking within American banks.

On health care, Canadians are traditionally protective of their universal system, and may perceive a threat from investors south of the border, who continue to be embroiled in controversy over their own citizens' coverage and the private interests at play in the health insurance system.

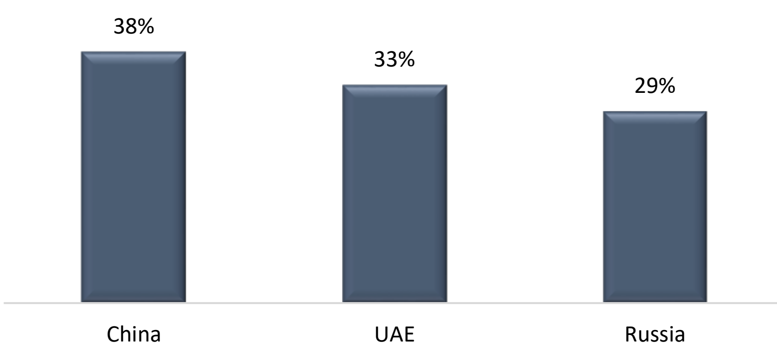
Should Canada encourage or discourage foreign direct investment from the United States in each of the following sectors?
Summary of 'Encourage' shown



Russia, U.A.E regarded with caution

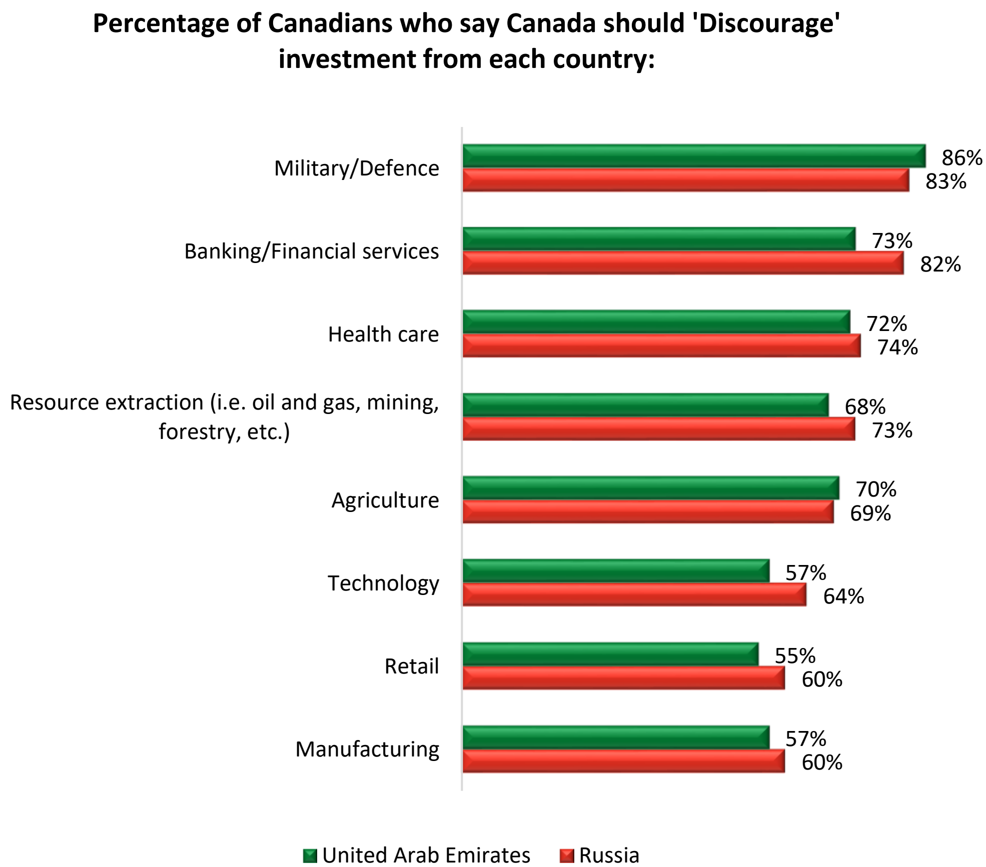
Two other nations – both less-traditional trade partners for Canada than Europe and the United States – Russia and the United Arab Emirates, receive much less enthusiasm from Canadians for FDI:

Average "encourage" response to investment across eight different sectors



Of the six nations or regions proposed in this study, Russia receives the most-negative assessment. At least six-in-ten Canadians say investment from Russia should be discouraged in each of the eight sectors presented.

Canada's largest trading partner in the Middle East (16th largest overall), the U.A.E., receives similarly high levels of discouragement. Concerns over troubling labour conditions and civil liberties may contribute to this poor scoring:



Though neither is among Canada's top trading partners or sources of FDI, both Russia and the U.A.E. have been investors in Canada in the past. In 2016, Russian investors had almost $3.5 billion invested in Canadian businesses, according to Statistics Canada. In 2015 – the most recent year data for the U.A.E. is available – investors from the Emirates had more than $9.5 billion in Canada.

In terms of trade in goods and services, Canada's recent economic relationship with Russia peaked in 2012 when it reached $1.8 billion, making it the nation's 18th largest trading partner. Due to sanctions implemented by the previous federal government in 2014, total exports have since been reduced by two-thirds, to roughly $640 million.

Part 2: Chinese Foreign Direct Investment – an analysis

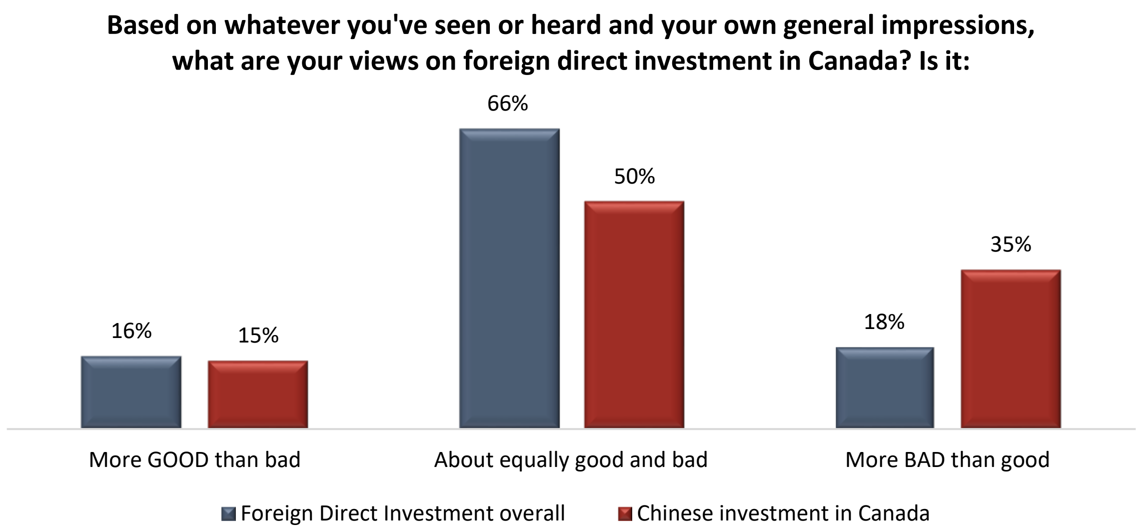
More see Chinese investment as bad than good

China's rapid economic growth since the 1990s has corresponded with an increased – and increasing – amount of Chinese investment in private companies around the world. In Canada, investors from China have purchased oil companies, tech companies, nursing homes, and a ski area, among other things.

Between 2007 and 2015, Chinese foreign direct investments in Canada grew in total value from less than $5 billion to more $20 billion.

In the scheme of things, that's still not much. The "stock" of foreign direct investment in Canada – a measure of the total value of foreign equity in Canadian companies – was worth nearly U.S. $1 trillion in 2016, according to the OECD.

The relative smallness of Chinese investment in Canada hasn't stopped certain deals from causing concern, however, and this poll finds the Canadian public expressing greater concern about Chinese investment than about FDI in general:

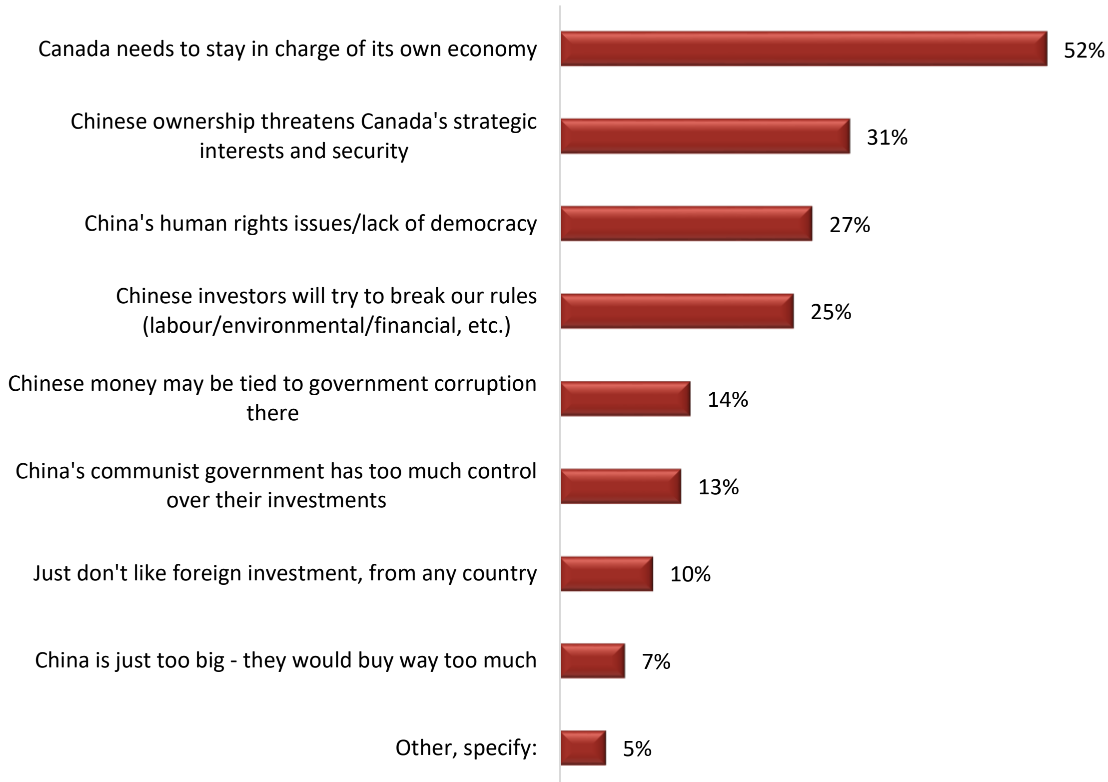


Notably, fully two-thirds of Canadians (66%) see foreign direct investment as a mixed bag, and half say the same about investment from China, specifically. Thus, they are more likely to see Chinese investment as a net negative than a net positive, suggesting that country of origin matters.

Those who say Chinese investment in Canada is more bad than good were asked a follow-up question about their main reasons for saying so. More than half (52%) choose "Canada needs to stay in charge of its own economy" – a reason rooted more in a desire for economic sovereignty than anything specific to Chinese investors.

That said, substantial numbers also cite security concerns, human rights issues in China, and a fear of Chinese investors breaking Canadian rules – all of which are more China-specific issues – as their reasons for viewing Chinese investment in Canada as a "bad thing":

You indicated that Chinese investment in Canada is, on balance, a bad thing. What are your main reasons for feeling this way? (Select up to two)



Taking a harder line on Chinese investment in Canadian companies – as those who see Chinese investment as a bad thing may advocate – could have wider consequences for Canada's overall relationship with China.

It could negatively impact the federal government's efforts to negotiate a free trade agreement with China or lead to changes to the Chinese government's rules for the more than $12 billion worth of Canadian investment currently at work in that country. This is to say nothing of potential effects on Canada's more than $60 billion trading relationship with Beijing.

Asked whether the potential economic consequences of discouraging Chinese investment in Canada would be "worth it" to achieve the goal of preventing Chinese takeovers of Canadian companies, a majority of Canadians (58%) choose this option over the alternative: that discouraging such investment is "not worth risking damage to the economic relationship between Canada and China."

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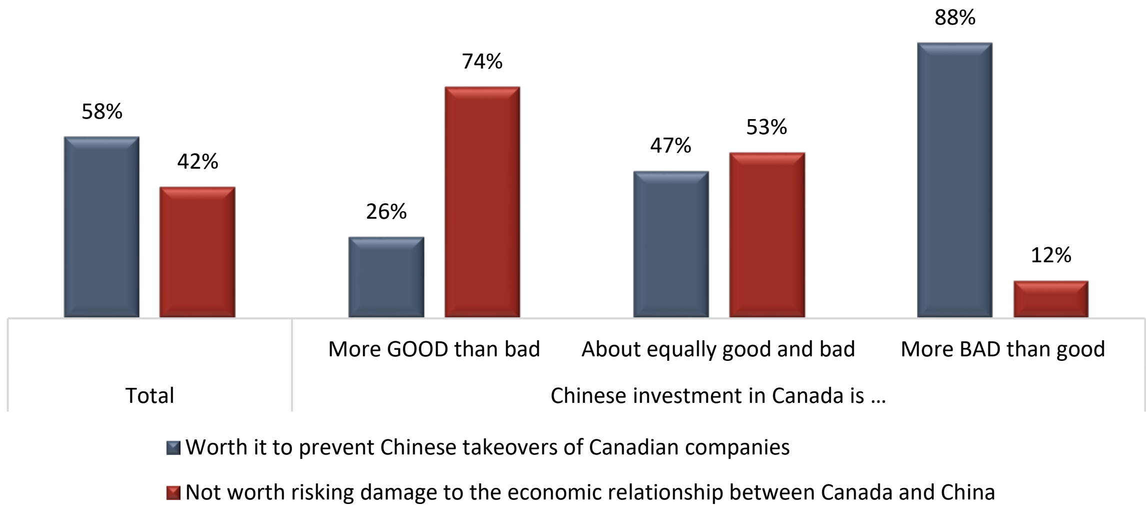
As might be expected, those who think Chinese investment is a bad thing overwhelmingly say discouraging it would be worth any potential consequences:

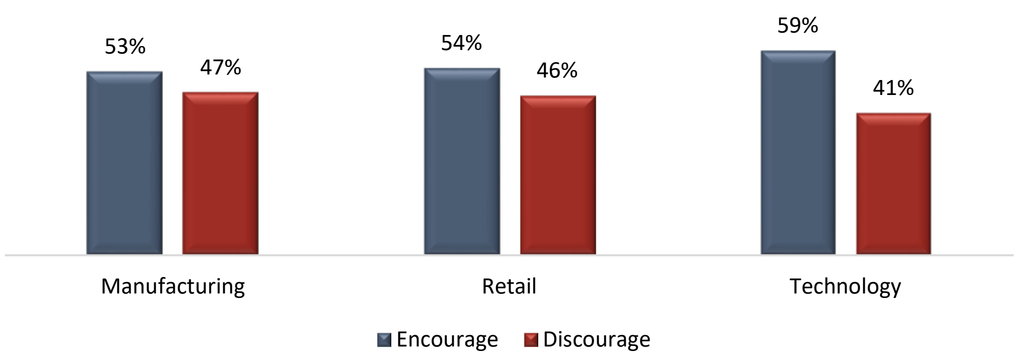
Which of these perspectives is closer to your own? Would discouraging Chinese investment be ...



In which sectors should China be encouraged to invest?

Canadian opinion of investment from China depends largely on which sector that foreign capital is servicing. For example, a majority of Canadians are of the opinion that Canada should encourage Chinese investment to fund manufacturing, retail, or technology projects.

Should Canada encourage or discourage foreign direct investment from the China in each of the following sectors?



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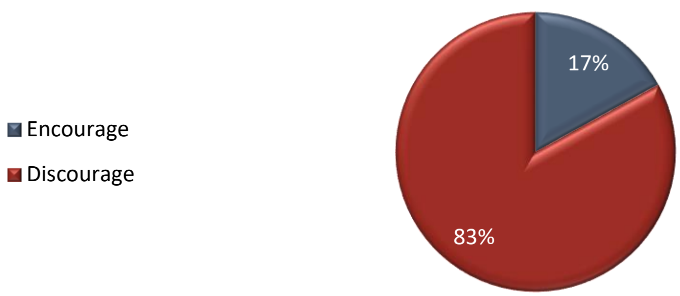
This opinion is relatively stable across age and gender and finds Albertans and Atlantic Canadians most enthusiastic about further investment (see comprehensive tables for more detail).

Tech projects have been a subject of some discomfort for the Trudeau government, which reversed a decision by the previous Harper government to prevent a Chinese electronics company from purchasing Montreal-based ITF technologies. This and the purchase of NORSAT – a Canadian satellite technology company that works with the American Defense Department – illuminate an area of concern for Canadians.

Such takeovers would comprise the middle section of a Venn diagram between the tech sector and the defence sector. And while Canadians are largely supportive of tech investment, the same cannot be said regarding military and defence funding. Eight-in-ten (83%) say that investment in military and defence should be discouraged from companies based in China.

Should Canada encourage or discourage foreign direct investment from the China in each of the following sectors? Military/Defence



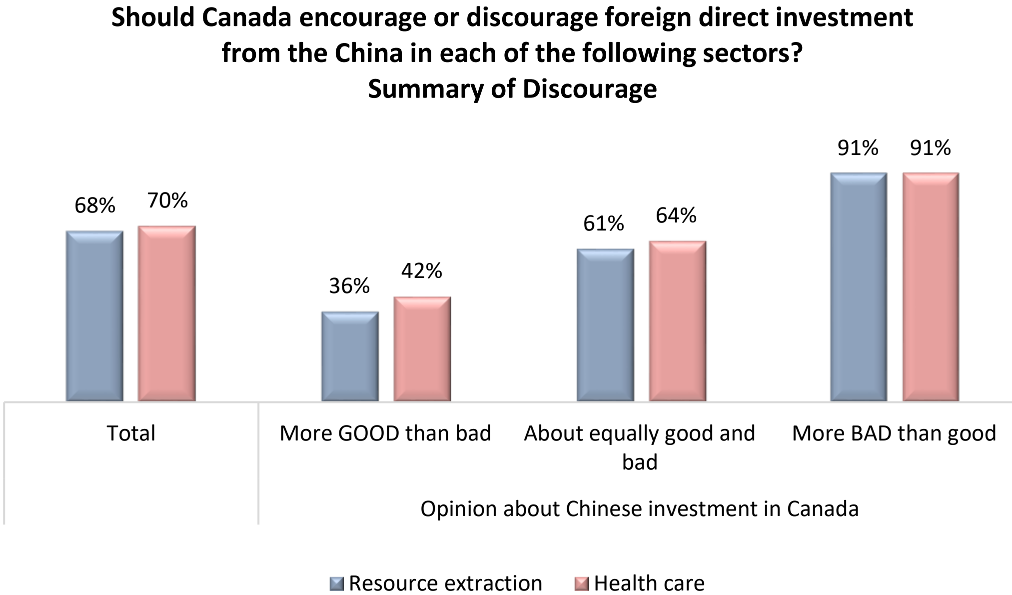
The United States, which is reviewing the NORSAT deal, has been significantly more active than Canada in rejecting Chinese investment deals. Canada has rejected only two proposals since the passage of the Investment Canada Act in 1985.

Four other sectors receive meagre support from Canadians in terms of investment priorities. Agriculture, traditionally not a large market for FDI from China, received the majority of new Chinese investment in the second quarter of 2017. Just one-in-three (34%) Canadians say they would like to see FDI encouraged in this area.

Notably, three-in-ten Canadians would like to see more Chinese investment in health care, while seven-in-ten would discourage it. Recently, the federal government faced criticism after approving the sale of a BC retirement home to China's Anbang Insurance. The ownership structure of Anbang is notoriously opaque, with many questioning how much of the company is state-owned. Former Conservative leader Rona Ambrose asked at the time if the Prime Minister could "tell us exactly who owns Anbang Insurance".

Another area where criticism has been leveled is in the oil and gas sector. After a crackdown on state-owned Chinese investment in 2012, large purchases of oil sands properties have reportedly been replaced with smaller deals by a number of firms. Low oil prices have led to roughly $2 billion in transactions over the past five years, helping domestic producers cope with losses.

Even among those most supportive of Chinese investment, a significant portion are sour on purchases in both the health care and resource sector.



*The **Angus Reid Institute (ARI)** was founded in October 2014 by pollster and sociologist, Dr. Angus Reid. ARI is a national, not-for-profit, non-partisan public opinion research foundation established to advance education by commissioning, conducting and disseminating to the public accessible and impartial statistical data, research and policy analysis on economics, political science, philanthropy, public administration, domestic and international affairs and other socio-economic issues of importance to Canada and its world.*

Summary tables follow. For detailed results by age, gender, region, education, and other demographics, click here.

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Which of these perspectives is closer to your own? Would discouraging Chinese investment be …				
(weighted sample sizes)	Total (1505)	Chinese investment in Canada is …		
		More GOOD than bad (228)	About equally good and bad (748)	More BAD than good (529)
Worth it to prevent Chinese takeovers of Canadian companies	58%	26%	47%	88%
Not worth risking damage to the economic relationship between Canada and China	42%	74%	53%	12%

Should Canada encourage or discourage foreign direct investment from China in each of the following sectors (Summary of 'discourage')				
(weighted sample sizes)	Total (1505)	Chinese investment in Canada is …		
		More GOOD than bad (228)	About equally good and bad (748)	More BAD than good (529)
Resource extraction (i.e. oil and gas, mining, forestry, etc.)	68%	36%	61%	91%
Agriculture	66%	37%	59%	88%
Health care	70%	42%	64%	91%
Manufacturing	47%	20%	38%	71%
Banking/Financial services	74%	49%	70%	90%
Military/Defence	83%	64%	80%	96%
Technology	41%	17%	30%	67%
Retail	46%	22%	37%	69%

As we look to the future, with which of the following countries or regions do you think Canada should try to develop closer ties?
(Select up to two)

	July 2014	April 2015	February 2017	August 2017
Continue to focus on the U.S.	36%	49%	49%	41%
The European Union	37%	48%	33%	44%
China	34%	40%	29%	24%
South and Central America	16%	25%	14%	11%
India	18%	20%	10%	13%
South East Asia	12%	14%	8%	6%
The United Kingdom (added Feb. 2017)	-	-	29%	29%
Other, specify	5%	3%	4%	5%

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