
Growing and Diversifying Chinese Investment in Canada: 2000-2010

Kenny K. Zhang

Asia Pacific Foundation of Canada
220-890 West Pender Street
Vancouver, British Columbia, Canada V6C 1J9
E-mail: kenny.zhang@asiapacific.ca
*Corresponding author

Victor Z. Chen

Beedie School of Business
Simon Fraser University
500 Granville Street
Vancouver, British Columbia, Canada V6C 1W6
E-mail: victor_chen@sfu.ca

Abstract: This paper profiles the scope and diversity of Chinese foreign direct investment (FDI) in Canada over the last decade. The study includes an analysis of the advantages and disadvantages of Chinese FDI for Canada and its implications for Sino-Canadian relations. It also discusses how Chinese FDI has diversified and what this should mean for public policy in Canada.

Keywords: foreign direct investment; China; Canada; public policy.

Reference to this paper should be made as follows: Zhang, K.K. and Chen, V.Z. (2011) 'Growing and diversifying Chinese investment in Canada: 2000-2010', *Asia Pacific and Globalization Review*, Vol. 1, No. 1, pp.37-54.

Biographical notes: Kenny Zhang is a Senior Research Analyst at the Asia Pacific Foundation of Canada specializing in China and immigration topics. Mr. Zhang received his B.A. and M.A. degrees in economics from Fudan University, China and the Institute of Social Studies, The Netherlands, respectively. He joined the Foundation in January 2003. His main research interests include Canada-China trade and investment relations, economics of immigration of Canada with focus on the Canadians abroad. Prior to joining the Foundation, he worked as associate research professor at the Shanghai Academy of Social Sciences and senior researcher at the Centre of Excellence on Immigration Studies at Simon Fraser University, Vancouver.

Mr. Zhang has been a member of Vancouver Mayor's Task Force on Immigration since 2005. He is also on the Joint Federal Provincial Immigration Advisory Council, the Board of Directors of Canada China Business Council (BC Chapter), and the Board of Directors of Metropolis British Columbia.

Victor Z. Chen is a PhD Candidate in Strategy and International Business at Simon Fraser University, Vancouver, Canada. His research interest includes corporate strategy, foreign direct investment, institutions, and emerging markets. His works have been published in the *Asia Pacific Journal of Management* amongst others. Mr. Chen was a Research Fellow at the Asia Pacific Foundation of Canada during 2008-2009, and has been named a doctoral scholar of the Social Sciences and Humanities Research Council of Canada (SSHRC), a Pacific Century Scholar of the Province of British Columbia, and a doctoral scholar at the Jack Austin Centre for Asia Pacific Business Studies at Simon Fraser University. Most recently, Mr. Chen

completed an assignment as a Policy Analyst at the coordination office of the Asia Pacific Gateway and Corridor Initiative (APGCI), Government of Canada. Mr. Chen is a co-founder and the founding Associate Editor of the journal of *Transnational Corporations Review*. He is also a CFA Level III Candidate.

1 Introduction

Chinese FDI to Canada has risen from virtually nil in the late 1970s to a record high of \$14.1 billion¹ in 2010, and the implications for Canadian government policy and business are profound (Woo & Zhang, 2006). Chinese FDI is sanctioned by China's leadership in its "going global" policy and strongly motivated to seek natural resources, capital, new markets, efficiencies, and strategic assets (Zhan, 1995; Zhang, 2005; Davies, 2010; Wei, 2010; Wei & Alon, 2010; Asia Pacific Foundation of Canada (APF Canada) & China Council for the Promotion of International Trade (CCPIT), various years).

When Chinese FDI swings in with a big wave, it inevitably catches greater public attention and raises alarm about issues such as subsidization, transparency, and national security for takeovers by Chinese companies, especially state-owned enterprises (SOEs) (Antkiewicz and Whalley, 2007; Woo, 2009; Massot, 2011). In 2004, China's Minmetals Group (a state-owned company focused on minerals and other natural resources) bid nearly \$6.7 billion and attempted to acquire Noranda, one of Canada's largest mining companies at the time. The acquisition attempt raised many concerns in Canada over the Chinese company's status as a state-owned enterprise. Critics claimed that Minmetals had committed human rights and labour violations, and the fact that it was based in a so-called "Communist nation" raised the spectre of national security concerns (Litvak, 2006). Takeover talks eventually failed, due to opposition from labour unions in Canada and the federal government's introduction of Bill C-59, an act to amend the Investment Canada Act, which was designed to enable the government of Canada to apply more stringent investment screening criteria.

The increase in Chinese investment in Canada raises questions for many Canadians. How much is it growing and in which sectors is it concentrated? Do Chinese companies have specific advantages or disadvantages when they are looking for investment opportunities in Canada? What is the impact of growing investment from China on Canada-China economic and business relations?

This paper aims to discuss and answer these questions by examining the evolution of Chinese investment in Canada over the past ten years. It begins with a descriptive analysis of Chinese investment in Canada, based on information from Statistics Canada. Using survey data (2005-2010)², the paper illustrates the advantages and disadvantages that Chinese companies have for investing in Canada. Using APF Canada's national opinion surveys (2004-2010), the paper also addresses Canada's reaction to Chinese investment at public and policy levels. Finally, the paper

¹ Dollar (\$) figures are in Canadian dollars unless specified.

² The Asia Pacific Foundation of Canada (APF Canada) and the China Council for the Promotion of International Trade (CCPIT) jointly conducted these surveys in 2005, 2006, 2009, and 2010 respectively. The survey was designed to collect data on the existing pattern of Chinese outward investment and its likely trajectory in the years ahead. Some of the questions about Chinese FDI intentions in the survey do not necessarily reflect their actual FDI behaviours. It may still be helpful to see a possible coming trend, but should not be interpreted as a definite prediction of future Chinese FDI behaviours.

concludes with a discussion of the policy implications for Canada and Sino-Canadian relations.

2 Chinese investments in Canada

In the period of 2000-2010, Chinese investment in Canada witnessed the dynamics and its features of can be observed from following perspectives.

2.1 *Growing fast but remaining small*

Chinese investment in Canada surpassed Canadian FDI in China for the first time in 2008, when Chinese FDI reached \$5.7 billion (see Chart 1). In 2009, Chinese FDI in Canada doubled to \$12.9 billion and continued climbing to \$14.1 billion in 2010. Compared to the \$219 million Chinese companies had invested in Canada just ten years before, China's FDI in Canada has multiplied 63 times, with an average annual increase of 59% (Statistics Canada, 2010).

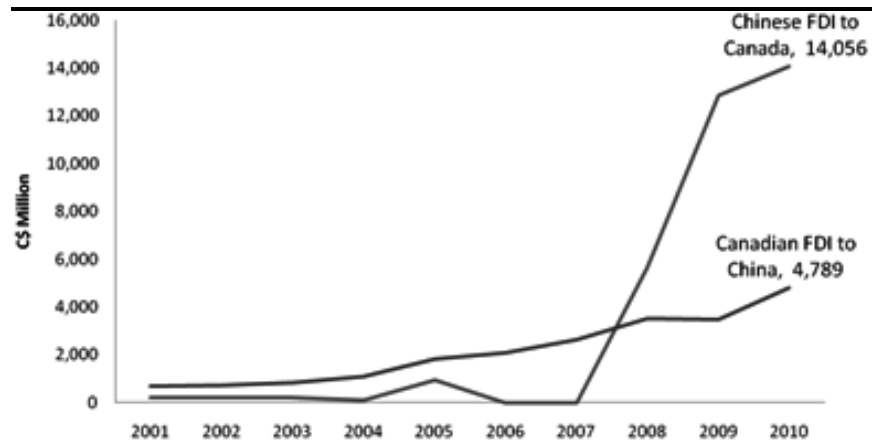
The same trend manifested itself globally and is illustrated in the 2010 World Investment Report. In 2008 and 2009, China's FDI outflows rose to US\$52.2 billion and US\$48 billion respectively, an increase of 132% and 113%, compared to US\$22.5 billion in 2007, before the financial crisis. By contrast, total global foreign investment decreased by 15% and 51% over the same period, while the foreign investment of developed economies decreased by 18% and 57%, and the foreign investment of developing and emerging economies (excluding China) decreased by 9% and 33%. During the global financial crisis period, China was one of the few economies to report positive growth, becoming the world's sixth-largest source of foreign investment (UNCTAD, 2010). China's international merger and acquisition (M&A) deals also reached record levels in 2010, and outbound M&A by Chinese buyers jumped by more than 30%. The largest outbound transaction in 2010 was Sinopec's acquisition of a 40% equity stake in Repsol YPF Brasil SA for US\$7.1 billion (PricewaterhouseCoopers, 2011).

While China has recently reported faster growth of its FDI than other economies, the total amount represents only 2.5% of Canada's total FDI in 2010 (Chart 2). FDI from the United States, for example, stood at \$306 billion, accounting for 55% of total FDI to Canada, followed by the Netherlands (9%) and the U.K. (8%). China is reported as the seventh-largest source country of FDI to Canada (See Chart 3).

2.1 *Targeting resources but diversifying interest*

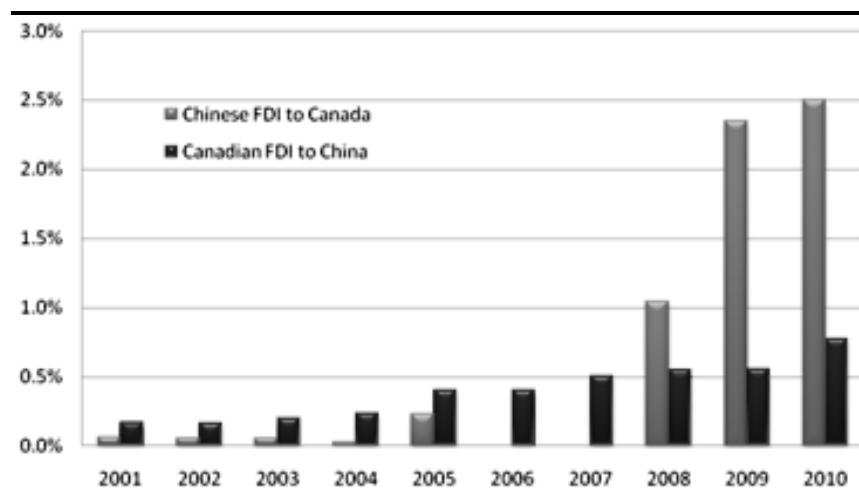
China's appetite for overseas assets continues to grow, with energy and natural resources as key targets, since the country aims to secure the resources it needs to fuel its economic growth. Canada seems like a natural fit for Chinese investors. In April 2010, the China Investment Corporation, China's sovereign wealth fund, opened its first foreign representative office in Toronto. Also in April 2010, Sinopec, China's second-largest oil producer and largest refiner, agreed to buy ConocoPhillips' 9.03% stake in Syncrude Canada Ltd., the largest oil sands project, for \$4.65 billion. Though not the first, this deal is the richest yet for Chinese companies looking for a toehold in the oil sands, the world's biggest oil reserves outside Saudi Arabia.

Chart 1 Canada-China two-way investment



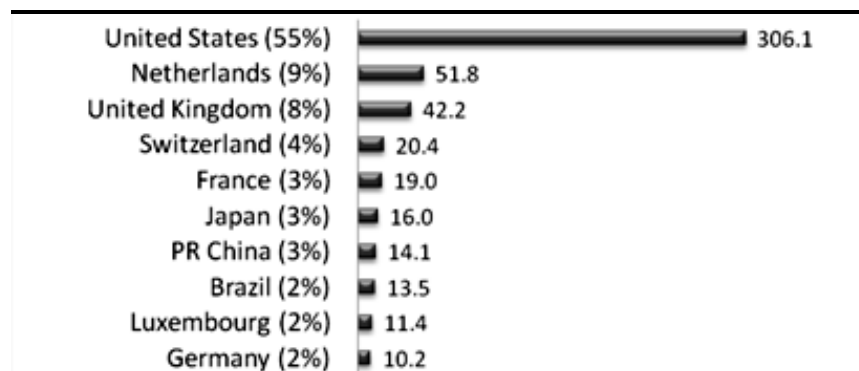
Source: Statistics Canada. Table 376-0051 (accessed May 2, 2011)

Chart 2 China's share in two-way investment



Source: Statistics Canada. Table 376-0051 (accessed May, 2011)

Chart 3 Top 10 FDI countries in Canada: 2010 (C\$B)



Source: Statistics Canada. Table 376-0051 (accessed May 2, 2011)

Other recent oil sands investments by Chinese companies in Canada include the following:

- August 2009: PetroChina agrees to buy a 60% stake in two undeveloped oil sands properties held by Athabasca Oil Sands Corp. that could eventually produce as much as 500,000 barrels per day.³
- April 2009: Sinopec acquires an additional 10% stake in Total SA's undeveloped Northern Lights oil sands project.⁴
- April 2005: CNOOC pays \$122 million for 16.7% of privately held MEG Energy Ltd., which is developing an oil sands project in northern Alberta that could eventually pump up to 210,000 bpd, while other properties in its portfolio could eventually produce 500,000 bpd.
- April 2005: Enbridge signs an agreement with PetroChina to ship oil on the planned Northern Gateway pipeline, which would take oil sands crude to a deepwater port on British Columbia's Pacific Coast (APF Canada, 2006-2011; Jiang, 2010).

In addition to oil sands and other energy projects⁵, Chinese investments in Canada include resources such as the following:

- In July 2008, Jinduicheng Molybdenum Group and Northwest Nonferrous International Investment Company of China acquired all of the public shares of Vancouver-based Yukon Zinc, a mining company with properties in Yukon Territory (Yukon Zinc, 2008).
- In July 2009, China Investment Corporation (CIC), China's US\$300 billion sovereign wealth fund, invested \$1.74 billion in Teck Resources (a Vancouver-based diversified mining company).

In addition to natural resources, China has acquired high-tech companies (Child and Rodrigues, 2005). There is also strong interest in machinery and equipment manufacturing and the automotive sector (PricewaterhouseCoopers, 2011). For example:

- In June 2001, China's Worldbest invested \$45 million to set up a knit dyeing plant in Drummondville, Quebec. At the time, it was China's largest investment in Canada.
- In June 2009, Industrial Commercial Bank of China (a large wholesale and retail bank) acquired a 70% stake in the Bank of East Asia's Canadian assets, for \$80.25 million.
- In April 2010, Shenzhen-based Huawei (a telecom solutions provider) opened its first R&D Centre in Ottawa, creating 70 jobs.

³ The Canadian government offered no opposition to the investment by state-controlled PetroChina and formally approved the acquisition in December.

⁴ The purchase price has not been disclosed, but brings Sinopec's stake in Northern Lights to 50%, after buying a 40% interest in the project in May 2005, for \$105 million.

⁵ More recent deals are reported by the Globe and Mail (2011, October 12).

- In November 2010, Chinese manufacturing firm Daqo Group contributed \$3.5 million to build a \$5 million solar panel assembly plant in a joint venture with a Hamilton-based engineering company called JNE Consulting (APF Canada, 2006-2011).

Recent APF Canada and CCPIT surveys have tracked similar trends. According to the *China Goes Global* survey, Chinese companies with Canada investment plans see economic opportunity in a number of sectors, including manufacturing, hotels and restaurants, wholesale and retail shops, financial services, and mining, among others (see Table 1).

Table 1 Sectors of interest for Chinese investment

<i>Sector</i>	<i>Companies that have intention to invest in Canada in the next 3 years (%)</i>	<i>Companies that have no intention to invest in Canada in the next 3 years (%)</i>	<i>T-test</i>
Manufacturing	48.8*	18.8*	6.60
Hotel and restaurants	14.3*	4.0*	4.26
Wholesale and retail shops	14.3	13.1	0.30
Financial intermediation	13.1*	3.9*	3.88
Real estate and business consulting	9.5*	3.4*	2.78
Water, electricity, gas supply	8.3	3.4	2.26
Agriculture, forestry, animal husbandry	8.3	5.6	1.04
Transport, storage and communications	3.6	5.1	-0.62
Construction	3.6	3.5	0.02
Mining	3.6	3.1	0.22
Fisheries	1.2	0.7	0.52

Note: N=1,105; * indicates statistically significant at 1% level (two sided).

Source: APF Canada and CCPIT, 2010

In fact, Canada offers unique opportunities for foreign investors, including a high-performance economy and an investor-friendly environment. It also fosters innovation, has a diversified workforce, and is strategically positioned in North America. It offers opportunities for foreign investment in sectors such as advanced manufacturing, agri-food, chemicals and plastics, clean technologies, information and communications technology, life sciences, and services (Department of Foreign Affairs and International Trade Canada (DFAIT), 2010). By the end of 2008, inward FDI in Canada was concentrated largely in the services sector (44%), followed by manufacturing (34%) and the primary sector (22%) (Acharya et al, 2010). It is not surprising that Chinese investors are targeting Canadian resources but also diversifying interest beyond the resource sectors.

2.2 One policy, many players

China's "Go Global" policy and related incentives remain strong influences on Chinese companies' FDI decisions. The policy is encouraged by the central government to establish a larger Chinese presence in global business, and focuses on foreign acquisitions, brand-building, and boosting international competitiveness (Zhang, 2005; 2009).

With the support of such a policy, many players are involved in China's FDI. The most prominent player is the CIC, the US\$300 billion sovereign wealth fund backed by over US\$3 trillion in foreign-exchange reserves. Its mission is to make long-term investments that maximize financial returns for the benefits of its shareholder. Set up in September 2007, CIC has diversified its investments strategically at home and abroad. It bought shares in the country's three largest banks, and today owns 35.42% of the Industrial & Commercial Bank of China, 57.09% of the China Construction Bank and 67.53% of the Bank of China. In global markets, CIC has invested US\$3 billion and US\$5 billion in Blackstone and in Morgan Stanley, respectively, US\$100 million in VISA, \$1.74 billion in Teck Resources, and \$1.25 billion in Penn West Energy Trust, a Calgary-based oil and gas company. Recently, CIC set up an International Advisory Council, of which former Minister of Foreign Affairs David Emerson is the only Canadian member. In early 2011, its first foreign representative office opened in Toronto; it will serve as a platform for deepening business cooperation and relationships with local companies and exploring investment opportunities in Canada.

Another major player is a grouping of state-owned giants, including the following: China Minmetals; Wuhan Iron and Steel, which invested US\$240 million in Consolidated Thompson in 2009; and PetroChina, which recently agreed to pay \$1.9 billion for a stake in the Northern Alberta oil sands. In addition, this group of Chinese multinationals includes CNOOC, Sinopec, CITIC, and COSCO. While classified as state-owned enterprises, many of these companies are in fact publically owned (Woo, 2008). China Minmetal (SS600058) and Wuhan Iron and Steel (SS600005) have been listed and traded on the Shanghai Stock Exchange since 1997 and 1999 respectively, and PetroChina is listed on the Shanghai (SS601857), Hong Kong (HK00857), and New York (NYSE:PTR) stock exchanges. As public companies, they have to follow international business rules and satisfy shareholders.

In addition, there are a number of companies investing in Canada that are not state-owned. For example, Shenzhen-based Huawei is a privately owned global ICT solutions provider. Huawei opened its first Canadian office in the spring of 2008. Its headquarters are in Markham, Ontario, and the company has a Research and Development centre in Ottawa, Ontario. Huawei has more than 250 employees in Canada and the company plans to expand its presence in Toronto and Ottawa over the coming years (Huawei, 2011).

Little Sheep is another interesting case of a Chinese company that is not a state-owned enterprise and has expanded its business in Canada. Based in Baotou, Inner-Mongolia, Little Sheep was initially a private hotpot restaurant with a franchise business. In June 2008, Little Sheep listed in the Hong Kong stock exchange (stock code: HK0968) (Little Sheep, 2011). It opened its first North American hotpot outlet in Toronto in October 2005 and a second one in Toronto a year later. In 2007, it opened restaurants in Vancouver and Montreal, and another in Ottawa in 2009. Last year, it opened one in Brossard (Lin, Du, & Wei, 2010).

Similar stories include Ningbo Sunhu, a supplier of special materials and speciality chemicals, which invested \$21.8 million for a 15.6% stake in Toronto-based Royal Nickel in September 2009. There are many others that the Canadian public has never heard of.⁶

Apart from actual investments in Canada by Chinese companies that aren't state-owned enterprises, potential non-SOE Chinese investments are likely to increase on Canada's FDI horizon. According to APF Canada and CCPIT

⁶ See a list of Chinese companies on the website of the Embassy of China in Canada (2007).

surveys, about four out of five non-SOEs show equivalent enthusiasm to outward investment compared to their SOE counterparts (APF Canada and CCPIT, various years).

3 Chinese FDI in Canada: firm-specific advantage (FSA) or disadvantage (FSD)?

What are the advantages or disadvantages that Chinese companies possess when they invest in Canada? The international business theories and practices brushed a mixed picture of Chinese firm-specific advantages.

3.1 Firm-specific advantage in theory

Traditional internationalization theory suggests that multinational businesses face liabilities associated with their “foreignness” when competing against local companies (Eden & Miller, 2004; Sethi & Guisinger, 2002; Zaheer, 1995; Zaheer & Mosakowski, 1997).

Eden and Miller (2004), for instance, argue that these liabilities can manifest themselves in several ways, including a lack of knowledge about local market conditions; unfamiliarity with legal, institutional, cultural and language issues; increased costs of communicating and operating from a distance, and so on. Consequently, if a firm wants to be successful in another country, it must have some kind of ownership- or firm-specific advantages (FSAs), such as technology or a brand that eliminates some of the costs of operating in a foreign marketplace (Dunning 1988; Rugman, 1985). The firm must attain either higher revenues for the same costs as local competitors, or lower costs for the same revenues. Such advantages must be embodied in the organization of the firm, and readily transferable between countries and within the firm (Dunning 1988; Rugman, 1985; Wei, 2010).

There are studies, however, showing that the internationalization of latecomer multinational companies (MNCs) from emerging markets is not based on technological and branding resources which can be exploited overseas. Instead, the literature shows they enter international businesses to explore their needed FSAs by leveraging other advantages (Mathews, 2002; Wei, 2010). And recent studies have found evidence that MNCs from developing countries do have certain unique advantages, such as cost-innovation capabilities that allow them to operate certain types of activities more effectively than local firms and industrialized-country MNCs (Dunning, 2006; Wei, 2010).

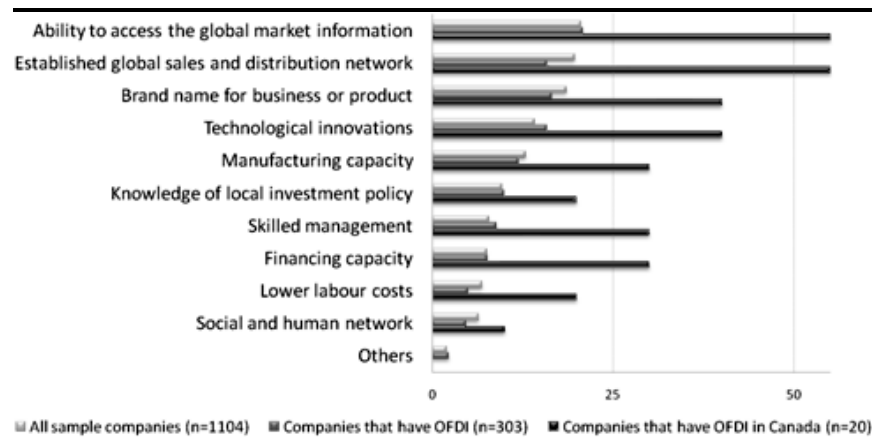
3.2 Firm-specific advantages and disadvantages for Chinese FDI in Canada

What are some of the FSAs that Chinese multinational companies enjoy? As relative newcomers, Chinese MNCs do not have traditional FSAs such as advanced technology and reputable brands. The most important FSA of Chinese MNCs is having access to a large pool of low-cost labour and lower manufacturing costs (Wei, 2010). Other home-country-related FSAs include the ability to explore personal relationships and business networks, and the dynamic capability to operate in environments with uncertain economic and political

circumstances (Wei, 2010). The deep pockets⁷ of Chinese firms also seem to be perceived as a new kind of FSA—particularly since the global financial crisis (Tudor, 2011).

In addition to these scholarly contestations, Chinese companies claim their own perceptions of FSAs for investing in Canada. According to a survey of over 1,000 Chinese companies by the APF Canada and CCPIT (2009), Chinese companies believe that their FSAs help them succeed in Canada. Some claimed FSAs give them the ability to access global market information and establish global sales and distribution networks. What is less valuable to them, they say, is taking advantage of low labour costs or tapping into local social and human networks (Chart 4).

Chart 4 Perceived advantages for success in Canada (%)



Source: APF Canada and CCPIT, 2009

As latecomers, Chinese MNCs often lag behind Western firms in terms of FSAs, especially in technology and innovation, managerial capabilities, and marketing capacity (Wei, 2010). Instead of FSAs, Chinese firms often face firm-specific disadvantages (FSDs) in Western economies.

Chinese state-owned enterprises (SOEs) and central-government-led enterprises (CGLEs) do have certain FSAs, but mainly relative to non-SOEs and regional firms in domestic markets.⁸ Compared to large well-known multinational companies in international markets, Chinese firms' home-country-related FSAs become insignificant. Only 54 Chinese companies (mainly SOEs and CGLEs) were included in Fortune Magazine's "Fortune 500" list of companies last year—about 10.8%. Of the top 100 non-financial multinational enterprises in 2008 ranked by UNCTAD's *World Investment Report*, only the CITIC Group and the COSCO Group of China were included. For the same year, among the top 100 non-financial multinational companies from developing countries and transition economies, only 13 Chinese companies (mainly SOEs and CGLEs) made the list.

Some countries, particularly Western developed countries, are reluctant to see Chinese enterprises (especially SOEs) take control of strategic businesses. For example, in 2004, China Minmetals' \$6.7 billion bid for Noranda was

⁷ By the end of June 2011, China's foreign exchange reserves reached USD3.197491 trillion (State Administration of Foreign Exchange (SAFE), 2011).

⁸ China's Ministry of Commerce (MOFCOM) statistics show that 66.2% of Chinese FDI stocks by 2010 were attributed to SOEs. The CGLEs accounted for 77% of the FDI stocks (MOFCOM, 2011).

rejected. In 2005, CNOOC's bid for Unocal in the U.S. was turned down. In 2008, Huawei's US\$2.2 billion acquisition of 3COM Corporation of the U.S. was blocked. In 2009, Australia's Rio Tinto (RTP) turned its back on a US\$19.5 billion investment from Chinalco.

Chinese companies face a number of challenges when they invest in Canada. The top three are the lack of knowledge about legal and market risks in Canada, the lack of international business and management personnel, and the difficulty of finding business partners (See Table 2). The liability costs of "foreignness" are high for Chinese companies looking to invest in Canada. If Chinese enterprises rely solely on their deep pockets backed by official reserve assets, rather than on their FSAs, to compete against local competitors, they will face extreme difficulties in the Canadian market.

Table 2 Firm-specific disadvantages for Chinese FDI in Canada

<i>Disadvantages</i>	<i>Average rating (1-5)</i>	<i>%</i>
Lack of knowledge about legal and market risks in Canada	2.81	56.28
Lack of international business and management personnel	2.74	54.88
Difficulty of finding business partners in Canada	2.58	51.56
Local consumer worry about quality and safety of Chinese products	2.53	50.67
Cultural barriers	2.46	49.13
Difficulty of getting a visa to Canada	2.40	48.10
Local consumers are unfamiliar with Chinese brand	2.37	47.39
Negative reactions by Canadian government	1.90	38.05

Note: N=59, companies that have had OFDI in Canada

Source: APF Canada and CCPIT, 2010

3.3 Determinants of Chinese FDI in Canada

Given the coexistence of FSAs and FSDs, what are the factors that really shape the decisions of Chinese firms to invest in Canada? The results of APF Canada and CCPIT's (2010) survey illustrate that a larger company is more likely than a smaller company to invest in Canada; whether a company is an SOE or not does not affect the likelihood of it investing in Canada⁹; the likelihood of investing in Canada is not significantly different among Chinese firms across industries; and a Chinese company based in a province with high rates of FDI is more likely to consider investing in Canada (See Table 3).

A company that has experience dealing with inward FDI in China is significantly more likely to invest in Canada than one with no such experience; the scale of their existing FDI does not have an effect on decisions to invest in Canada; previous FDI experience in the U.S. or Canada also significantly increases the likelihood of investing in Canada.

Finally, the effect of the home province remains significant; experience with inward FDI remains important as companies with no international business experience stand out as significant players in making Canada their investment destination; existing FDI becomes significant and companies with lower levels of existing FDI are found to be more likely to invest in Canada; the effect of

⁹ What distinguishes the two groups is that SOEs with investment interest in Canada have more ambitious overseas investment plans than their non-SOE counterparts. The means of intended OFDI scale for SOEs is US\$39 million vs. US\$12 million reported by non-SOEs (APF Canada and CCPIT, 2010).

Table 3 Logistic analysis of Chinese companies' intention to invest in Canada

<i>Factors</i>	<i>Specification 1</i>	<i>Specification 2</i>	<i>Specification 3</i>
Constant	-3.17***	-3.08***	-1.83**
<i>Size of company (reference is "large")</i>			
SME	-0.71**	0.01	0.17
<i>Ownership (reference is "non-SOE")</i>			
SOE	-0.17	-0.22	-0.22
<i>Industry (reference is "manufacturing")</i>			
Agriculture	0.77	0.53	0.00
Construction and Infrastructure	-1.11	no obs.	no obs.
Services	0.03	0.02	-0.48
Provincial average of intention to invest in Canada in next 3 years	14.18***	10.34*	11.38*
<i>International business experience (reference is "trade and IFDI")</i>			
Trade only		-0.13	0.07
IFDI only		2.39***	3.73***
Neither trade nor IFDI		0.52	1.19*
<i>Existing OFDI scale (reference is less than US\$1 million)</i>			
US\$1-5 million		-0.32	-1.04*
US\$5-10 million		-0.82	-2.15**
US\$10 million-1 billion		0.64	no obs.
Over US\$1 billion		0.97	-0.05
<i>OFDI experience in North America (reference is "only in Canada")</i>			
In USA only		1.93**	1.89**
Neither USA nor Canada		0.38	0.27
Both USA and Canada		1.99***	1.95**
<i>Priority market for OFDI (reference is "local market at OFDI destination")</i>			
North American market			-0.59
China's domestic market			-0.58
European market			-1.79**
Asian market			-1.13*
Global market			-2.01*
Others			-0.13
<i>Statistics</i>			
Number of effective observations	847	313	277
Pseudo R-Square	7%	19%	26%
Chi-square	20.35	38.52	48.76

Note: Specification 1: firm characteristics only; Specification 2: firm characteristics + previous experiences; Specification 3: firm characteristics + previous experiences + priority market to serve (* p<0.1, ** p<0.05, *** p<0.01)

Source: Authors' calculation based on APF Canada and CCPIT, 2010

previous North American investment remains significant; and if the companies' priority market for FDI is outside North America, they are significantly less likely to invest in Canada.

The above analysis of determinants of Chinese OFDI in Canada suggests broader implications for Canadian policy makers, investment promotion agencies, business service providers, and the general public. Have Canadians reacted to Chinese investment proactively?

4 Canada's reaction to Chinese investment

With the glowing interest of Chinese investment to Canada, Canadian policy's and public's react to this rising economic power become one of important indicators of the Sino-Canadian relations.

4.1 Does Canada welcome FDI?

Canada is one of the major destinations for global FDI. Between 2000 and 2008, inward FDI grew by 120%, reaching US\$474 billion by the end of 2008. This reflects an improved business climate, reduced restrictions on foreign ownership, and a prospering economy. The outlook for the future is also promising. And the Canadian government has sent strong signals to foreign investors that Canada is open for business, by lifting restrictions on previously protected sectors and increasing the financial thresholds for the review of foreign investments (Acharya et al., 2010).

Indeed, the government of Canada is branding the country as a great location for business and investment. The Hon. Peter Van Loan, then-Minister of International Trade, summarized that Canada offers one of the most attractive and low-risk business destinations in the world (DFAIT, 2010). He suggested that Canada's rich diversity, spirit of innovation, and excellent business conditions are key drivers of its economy. Some key advantages and opportunities that were highlighted include:

- Lowest taxes in the G7 on new business investment
- Lowest debt-to-GDP ratio in the G7
- Fastest economic growth in the G7 for 2011
- World's soundest banking system
- A "tariff-free zone" for manufacturers by 2015
- The highest proportion of post-secondary graduates in the OECD
- High quality of life
- A commitment to the rule of law and a strong justice system

By 2010, Canada had developed a global network of investment and trade professionals, present in more than 150 cities worldwide, to assist investors or potential investors in making Canada their next investment destination (DFAIT, 2010). Canada also has one of the most open regimes for inward foreign investment and Canadians generally support foreign investment (Woo, 2008).

Yet despite this open environment, many Canadians remain cautious—particularly when it comes to foreign companies taking over major Canadian businesses. There seems to be a significant gap between the government’s rhetoric and decisions and the public’s perception when there is a major foreign takeover.

4.2 *Conflicted and cold sentiments about Chinese OFDI*

The rise of China in recent years has changed the landscape of the world economy. As China continues to become one of the economic powerhouses in Asia—and the world—and looks to invest globally, will it be seen as an opportunity or a threat? Many people are worried about increased investment from China, especially from SOEs (Shalashniy, 2010).

China Minmetals’ failed bid for Noranda in 2004 tells part of the story. The Investment Canada Act (ICA) was the first stumbling block. According to the ICA, acquisitions that exceed a certain amount¹⁰ must be reviewed by Industry Canada under the *net benefit to Canada* requirement and the *national security* criterion.¹¹ The unclear position of the Government of Canada in 2004 made the acquisition unlikely. And the mainstream media didn’t help, by talking about China’s poor human rights record and emphasizing that Canada’s resources should not be sold to Chinese SOEs. Canadian unions posed another challenge. In a letter to the prime minister at the time, the National Director of the United Steelworkers Union expressed concern about the lack of consultation with the Union, given the fact that China Minmentals had only negotiated with management (Zhang, 2010).

4.3 *Public attitude: turning China’s FSAs to FSDs*

Since 2004, APF Canada has conducted national public opinion polling periodically (APF Canada, various years). The public opinion polls are a unique tool to measure and understand Canadians’ views on Asia, including attitudes about Asian investments to Canada. The most recent survey was conducted between February 15 and 23, 2011¹². The poll results show five interesting findings related to Chinese investment to Canada.

Canadians do not seem to embrace Asia. Canadians are somewhat conflicted about Asia and about Canada’s relations with the Asian region. While the results show that Canadians increasingly view Asia as critically important both economically and politically, many Canadians still do not seem to fully embrace Asia’s rise. Indeed, the number of Canadians who perceive China and India’s growing economic power as more of an opportunity than a threat has been declining over the past few years.

These divergent trends suggest that Canadians may be growing uneasy about this historic shift in the balance of power and, unsure of how to engage with Asia, seem to be reflexively turning inward. For example, 62% of Canadians perceive that Asian economies as a whole are vital to the Canadian economy;

¹⁰ The amount for the year 2011 is \$312 million (Industry Canada, 2011).

¹¹ Please refer to Woo, 2008; 2009; Murray & Glossop, 2009; Jiang 2010; and Massot 2011 for more discussion about the ICA and its impact on Chinese SOE investment in Canada.

¹²In all, 2,926 Canadians participated, resulting in a margin of error of 1.8%, 19 times out of 20.

nevertheless, the importance that Canadians attach to particular Asian economies has declined over the past three years.

Canadians are concerned about China's rise. While 66% of Canadians believe the influence of China will surpass that of the U.S. in 10 years, the number of Canadians that view the rise of China as more of an opportunity than a threat has dropped from 60% in 2008 to 43% in 2011. In 2008, 59% of Canadians saw China as important to Canada's prosperity, compared to just 44% in 2011. This downward trend of Canadians' attitudes holds true toward all Asian economies and, to a lesser extent, toward the U.S. and the European Union as well.

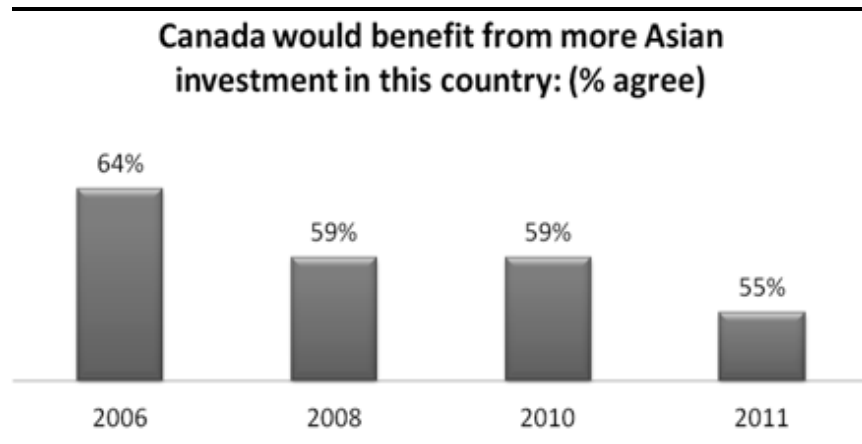
Canadians are cold toward China. The polling results also show that one in three respondents describes having cold feelings toward China. Only 10% of Canadians feel warmly towards China, India, South Korea, and Southeast Asia, compared to the 50% who are favourably disposed towards the United Kingdom and 40% who feel warmly about France.

Canadians worry about Chinese investment in Canada. The same polls suggest that a majority of Canadians still believe Canada would benefit from more Asian investment in Canada. However, there has been a statistically significant drop of nine percentage points, from 64% to 55%, in just a five-year period (see Chart 5). In terms of Chinese investments specifically, the number of Canadians that support a Chinese government-controlled entity acquiring a controlling stake in a major Canadian company declined from 18% to 16%, a statistically significant drop in one year. Compared to other foreign countries, China ranked at the bottom of the list for Canadians who are in favour of investment from state-owned entities from these countries (see Chart 6).

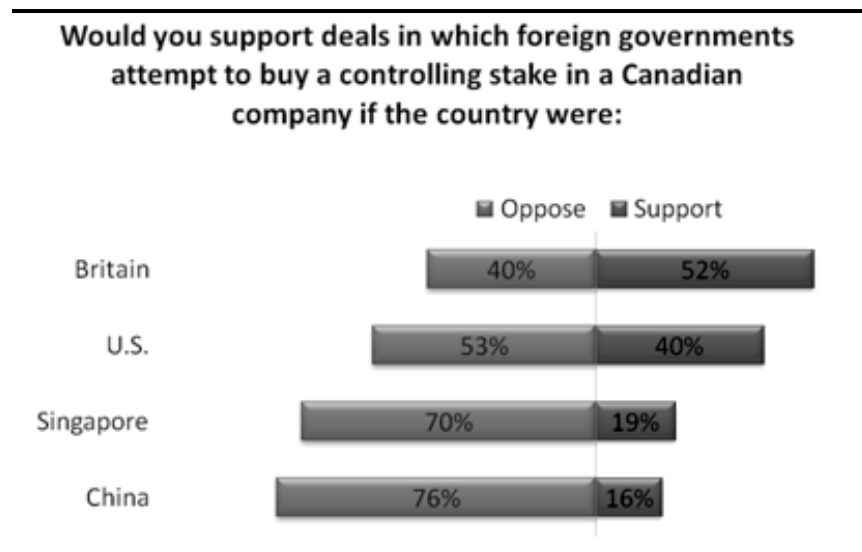
Canadians hold negative image of Chinese products.

The poll also revealed that 78% of Canadians hold a negative image of the quality of food produced in China, and 69% believe that China-made products, such as electronics and clothing, are of poor quality.

Chart 5 Canadian opinion poll on Asian investment as a benefit



Source: APF Canada, National Opinion Polls 2006; 2008; 2010; 2011

Chart 6 Canadian's support for foreign investment by country (poll)

Source: APF Canada, National Opinion Poll 2011

5 Concluding remarks

We have reviewed the last ten years of Chinese FDI in Canada and discussed the advantages and challenges facing Chinese firms that are operating or considering operating in Canada. We also demonstrated that Canada welcomes FDI in general, but has conflicted sentiments about Chinese FDI.

Early studies have confirmed that a country's public policies facilitating inward and outward FDI, as well as their spillover benefits, contribute to real economic growth (Globerman & Chen, 2010). This study further argues that the growing and diverse Chinese FDIs in Canada have much broader implications for Canada's public policy and Sino-Canadian economic and business relations.

Chinese FDI in Canada is growing at an astonishing rate, but remains minimal compared to traditional foreign investors such as the U.S., the Netherlands, and the U.K. The importance of Chinese FDI in Canada is on the rise, and it is becoming one of the key drivers in Canada-China relations. To secure China's massive appetite for energy and raw materials, its FDI is mainly targeted at Canadian energy and natural resource sectors. However, there is growing interest beyond resources, including advanced manufacturing, hotels and restaurants, wholesale and retail shops, and financial and business services. Diversification has also brought more non-state-owned SMEs to Canada. In addition, a new breed of publicly listed SOEs is changing the landscape of Chinese investment in Canada. Even among the large SOEs that currently dominate investment transactions in Canada, their business decisions are likely more independent and different from the conventional SOEs, given the fact that many of them are publicly owned or backed by regional governments.

These changes need to be carefully revisited, as so much of the current media focus and business analysis is on Chinese SOEs seeking resources, and the diversifying trend of Chinese FDI is often overlooked. At the policy level, Canada should keep its business environment open for all foreign investors. While every proposed investment from a foreign source should be considered on its merits, the Government of Canada should send a strong signal that it welcomes Chinese investment in Canada and that the ICA does not discriminate against state-owned enterprises (Woo, 2008). One such signal could be an

upgrade of the bilateral investment policy framework, from the 2006 China investment memorandum of understanding (Government of Canada, 2010) to a more comprehensive foreign investment promotion and protection agreement (FIPA).¹³ On a practical level, investment promotion agencies and service providers need to target these diversified players, whether large or small, SOE or non-SOE, resource-related or not, when attracting FDI from China. The Canadian business community should also prepare for the growing opportunities that such diverse FDI may bring to Canada's various sectors and regions.

For Chinese firms, however, the new players (and established investors) will need to understand that Canada no longer only looks for more FDI, but for sustainable FDI. The negative public perception of Chinese FDI in Canada forms a unique brand-based disadvantage for Chinese firms. Chinese companies should proactively work on such issues as cross-cultural management and corporate social responsibility to improve their overall branding effect.

References

- Acharya, R. C., Rao, S., Bhattacharjee, S., & Wright, L. (2010). Inward FDI in Canada and its policy context. *Columbia FDI Profiles*. New York: Vale Columbia Center on Sustainable International Investment. Retrieved from http://www.vcc.columbia.edu/files/vale/documents/Profiles_Canada_IFDI_Profile_-_August_23_FINAL.pdf.
- Antkiewicz, A., & Whalley, J. (2007). Recent Chinese buyout activity and the implications for wider global investment rules. *Canadian Public Policy*, 33(2), 207–226.
- Asia Pacific Foundation of Canada (APF Canada). (2006–2011). *Investment Monitor*. Retrieved from <http://www.asiapacific.ca/investment-monitor>.
- Asia Pacific Foundation of Canada (APF Canada). (2011). *2011 National opinion poll: Canadian views on Asia*. Retrieved from http://www.asiapacific.ca/sites/default/files/filefield/nop_report_apr_5_en_final_0.pdf.
- Asia Pacific Foundation of Canada (APF Canada), & China Council for the Promotion of International Trade (CCPIT). (2005, 2006, 2009, & 2010). *China goes global: Survey of outward direct investment intentions of Chinese companies*. Retrieved from <http://www.asiapacific.ca/surveys/chinese-investment-intentions-surveys>.
- Child, J., & Rodrigues, S. B. (2005). The internationalization of Chinese firms: A case for theoretical extension? *Management and Organization Review*, 1(3), 381–410.
- Davies, K. (2010). Outward FDI from China and its policy context. *Columbia FDI Profiles*. New York: Vale Columbia Center on Sustainable International Investment. Retrieved from http://www.vcc.columbia.edu/files/vale/documents/China_OFDI_final_Oct_18.pdf.
- Department of Foreign Affairs and International Trade Canada (DFAIT). (2010). *Invest in Canada*. Ottawa: Invest in Canada Bureau.
- Department of Foreign Affairs and International Trade Canada (DFAIT). (2011, June 8). Background on the Canada-China foreign investment promotion and protection agreement (FIPA). Retrieved from http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/fipa-apie/china-chine.aspx?lang=en&menu_id=13.
- Dunning, J.J. (1988). The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies*, 19(1), 1–31.
- Dunning, J.J. (2006). Comment on dragon multinationals: New players in 21st century globalization. *Asia Pacific Journal of Management*, 23(2), 139–141.
- Eden, L., & Miller, S. R. (2004). Distance matters: Liability of foreignness, institutional distance and ownership structure. *Bush School Working Paper #404*. Retrieved from <http://www.voxprof.com/eden/Publications/Eden-Miller-AIM-fnl-GBS-WP.pdf>.

¹³ Canada and China began negotiating a foreign investment promotion and protection agreement in 1994. Negotiations are ongoing (DFAIT, 2011).

- Embassy of China in Canada. (2007). 驻加拿大中资企业名单 (Chinese companies list in Canada). Retrieved from <http://ca.mofcom.gov.cn/aarticle/zxhz/zjzg/200704/20070404616183.html>.
- Globe and Mail, The. (2011, October 12). China's Canadian energy assets are adding up. Retrieved from <http://www.theglobeandmail.com/globe-investor/investment-ideas/streetwise/chinas-canadian-energy-assets-are-adding-up/article2198656/>.
- Globerman, S., & Chen, V. Z. (2010). *Best policy practices for promoting inward and outward foreign direct investment*. Ottawa: The Conference Board of Canada.
- Government of Canada. (2010, May 21). 2006 China investment MOU. In *Invest in Canada*. Retrieved from <http://investincanada.gc.ca/eng/investment-media/fdi-agreements/china-canada-mou.aspx>.
- Huawei North America. (2011). Corporate information: Canada. Retrieved from <http://www.huawei.com/na/en/catalog.do?id=911>.
- Industry Canada. (2011, February 21). Investment Canada Act: Thresholds for review. Retrieved from http://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/h_lk00050.html.
- Jiang, W. (2010). The dragon returns: Canada in China's quest for energy. *China Papers*, 19, Toronto: Canadian International Council. Retrieved from http://www.asiapacific.ca/sites/default/files/filefield/the_dragon_returns_canada_in_chinas_quest_for_energy_security_-_wenran_jiang.pdf.
- Li, P. S. (1993). Chinese investment and business in Canada: Ethnic entrepreneurship reconsidered. *Pacific Affairs*, 66(2), 219.
- Lin, X. H., Du, Y. P., & Wei, W. X. (2010). Inspiration of Little Sheep Hot Pot's developing in the Canadian market (小肥羊火锅开拓加拿大市场的启示). In W. X. Wei (Ed.), *Cases of cross-cultural management boutique (跨文化管理精品案例)*. Shanghai: Shanghai Jiao Tong University Press (上海交通大学出版社).
- Little Sheep. (2011). Company profile. Retrieved from http://www.xfy.com.cn/company/Overview_Introduction.aspx.
- Litvak, I. A. (2006). China Minmetals Corporation and Noranda Inc. *Case Study 906M13*, Richard Ivey School of Business, The University of Western Ontario. Retrieved from <http://hbr.org/product/china-minmetals-corporation-and-noranda-inc/an/906M13-PDF-ENG>.
- Massot, P. (2011). Chinese state investments in Canada: Lessons from the potash saga. *Canada-Asia Agenda*, 16, Vancouver: Asia Pacific Foundation of Canada. Retrieved from http://www.asiapacific.ca/sites/default/files/filefield/chinese_state_investments_in_canada_v4.pdf.
- Mathews, J. A. (2002). Competitive advantages of the latecomer firm: A resource-based account of industrial catch-up strategies. *Asia Pacific Journal of Management*, 19(4), 467–488.
- MOFCOM. (2011, September 15). *2010 Statistical bulletin of China's outward foreign direct investment*. Retrieved from <http://hzs.mofcom.gov.cn/accessory/201109/1316069604368.pdf>.
- Murray, C., & Glossop, P. (2009, June 11). Chinese investment in Canada reflects state of Canadian (and world) economy. In *Osler: Corporate Review*. Retrieved from <http://www.osler.com/NewsResources/Default.aspx?id=1302&col=5>.
- PricewaterhouseCoopers LLP. (2011). *Asia pacific M&A bulletin: A tale of two recoveries*. Retrieved from http://www.pwc.com/en_VN/vn/publications/2011/assets/MA-Bulletin-Year-end-2010-FA.pdf.
- Rugman, A. (1985). Internalization is still a general theory of foreign direct investment. *Review of World Economics*, 121(3), 570–575.
- Sethi, D., & Guisinger, S. (2002). Liability of foreignness to competitive advantage: How multinational enterprises cope with the international business environment. *Journal of International Management*, 8(3), 223–240.
- Shalashniy, A. (2010, July 3). Chinese investment and public opinion in Canada [blog post]. In *My Global Vision.com*. Retrieved from <http://www.myglobalvision.com/blog/2010/07/03/chinese-investment-and-public-opinion-in-canada/>.
- State Administration of Foreign Exchange (SAFE), (2011, July 28). FAQs on Foreign Exchange Reserves (III). Retrieved from http://www.safe.gov.cn/model_safe_en/news_en/new_detail_en.jsp?ID=3010000000000000.313&id=2.
- Statistics Canada. (2010, April 13). CANSIM Table 376-0051. Retrieved from http://cansim2.statcan.gc.ca/cgiwin/cnsmcgi.pgm?Lang=E&RootDir=CII/&ARRAY_VREL=3760051&PortalID=3764&ResultTemplate=V3764.

- Tudor, A. (2011, January 3). China's relentless hunt for energy [blog post]. In *The Wall Street Journal*. Retrieved from <http://blogs.wsj.com/deals/2011/01/03/chinas-relentless-hunt-for-energy/>.
- UNCTAD (2010). *World investment report 2010*. Retrieved from http://www.unctad.org/en/docs/wir2010_en.pdf.
- Wei, W. X., & Alon, I. (2010). Chinese outward direct investment: A study on macroeconomic determinants. *International Journal of Business and Emerging Markets*, 2(4), 352–369.
- Wei, Z. (2010). The literature on Chinese outward FDI. *Multinational Business Review*, 18(3), 73–112.
- Woo, Y. P., & Zhang, K. (2006). China goes global: The implications of Chinese outward direct investment for Canada. *Horizons*, 9(2), 34–39.
- Woo, Y. P. (2008). *Submission to the competition review panel*. Retrieved from http://www.asiapacific.ca/sites/default/files/archived_pdf/speeches/submission_review.pdf.
- Woo, Y. P. (2009). China Inc. comes to Canada. President's view. In *Asia Pacific Foundation of Canada*. Retrieved from <http://www.asiapacific.ca/editorials/presidents-view/25354>.
- Yukon Zinc Corporation. (2008, July 2). Jinduicheng Molybdenum Group, Ltd. and Northwest Nonferrous International Investment Company, Limited acquire Yukon Zinc Corporation [news release]. Vancouver. Retrieved from <http://www.yukonzinc.com/documents/YZC-2008-07-02.pdf>.
- Zaheer, S. (1995). Overcoming the liability of foreignness. *The Academy of Management Journal*, 38(2), 341–363.
- Zaheer, S., & Mosakowski, E. (1997). The dynamics of the liability of foreignness: A global study of survival in financial services. *Strategic Management Journal*, 18(6), 439–463.
- Zhan, James X. (1995). Transnationalization and outward investment: The case of Chinese firms. *Transnational Corporations*, 4(3), 67–100. Retrieved from http://www.unctad.org/en/docs/iteiitv4n3a5_en.pdf.
- Zhang, K. (2005) *Going global: The why, when, where and how Chinese companies' outward investment intentions*. Vancouver: Asia Pacific Foundation of Canada.
- Zhang, K. (2009, November). China is going shopping. Is Canada ready? *China Business*, 11, 36–39.
- Zhang, K. (2010). Why do western countries say no to Chinese companies' investment: Implications of Canadian public opinion poll (西方对中国企业“走出去”喊不的原因分析：加拿大民意调查的启示). In H. Y. Wang (Ed.), *Suggestions for China by overseas educated scholars (建言中国——海外高层次留学人才看中国)*, Beijing: Eastern Press (东方出版社).