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EXECUTIVE SUMMARY:

Over the past sixteen years or so, the People's Republic of China (China, hereafter) has made tremendous efforts in internationalizing the country's firms, value-chain, financial system, and currency as part of the "Go Global" development strategy. China's outward foreign direct investment (FDI) is a key element in this story and has experienced an unprecedented growth in recent years. The emergence of China as a global investor not only contributes to the reshaping of international economic and financial landscapes, but also, more directly, affects FDI host countries in many respects. These effects, both real and perceived, include economic growth, financial stability, technology development, environmental protection, labour markets and working conditions, and national security. For Canada and other developed countries such as the United States and Australia, serious concerns have been raised over the consequences of China's increasing acquisitions of their home firms by Chinese state-owned enterprises. In this context, the motivations and operations of China's overseas investment, the characteristics and trends of Chinese outward FDI, the economic, social, and political impacts of Chinese investments on host countries, and the efficiency of their FDI regulatory regimes and policies are among the paramount questions of public debates.

The objectives of this occasional paper are three-fold. First, the paper investigates both the driving forces leading to the expansion of China's outward FDI; further, it examines the recent patterns of China's outward FDI in terms of its industrial, geographical, and ownership characteristics. Second, the paper analyzes China's investment in Canada with reference to the United States and Australia, comparing the main investment characteristics, overall investment climate, FDI policies, and investment regulatory regimes in three countries. Finally, the paper analyzes main controversies and debates regarding China's FDI in Canada, including issues of China's state-owned enterprises and China's investment in energy/natural resources, real estate, and high-tech sectors. In the conclusion, the paper provides several policy recommendations in dealing with China's FDI in Canada.

In short, the key findings of the paper are:

- China's recent rapid growth of outward FDI has been caused by a combination of factors, which include the country's shift of development model into a consumption-led growth pattern, and the government's efforts in seeking external sources of energy and raw materials. It also reflects a natural expansion of China's industry and trade into the world sphere.

- Already the second largest foreign direct investor in the world, China has great potential to upgrade further its status in the international investment markets. Specifically, China's outward FDI is on track to become more diversified, especially in favour of tertiary industry. Because of round-tripping and off-shoring of China's outward FDI through Hong Kong and other tax havens, there are statistical discrepancies in sources in the estimate of China's outward FDI. Nevertheless, it is clear that China's outward FDI to the United States and other developed countries has been increasing dramatically in recent years. Moreover, China's non-state enterprises have begun to play an increasingly vital role in Chinese outward FDI.

- Compared to previous years, there was a remarkable increase of China's outward FDI in Canada in 2015, but Canada remains behind the United States and Australia in attracting Chinese investment. By number of transactions, the sectoral distribution of China's investment in Canada experienced a dramatic change in favour of the tertiary sector, especially the "entertainment and commercial real estate" sector, and, accordingly, the concentration of investment transactions recorded for energy, and metals and minerals sectors became less pronounced, though remain dominant in terms of cumulative value. The ownership structure of Chinese investors also continued to change, with the exception of 2013, in favour of private enterprises.

• In comparison, Canada imposes stricter restrictions on foreign investment than the United States and Australia. Although Canada has been active in negotiating international investment agreements with other countries in recent years, Canada's FDI restriction index remains as one of the highest among OECD countries. Canada, Australia and the United States have comparable features in their FDI regulatory regimes. It is necessary to have more careful scrutiny of the efficiency of Canada's FDI regulations.

• There are mixed attitudes and increasing worries among the Canadian public toward FDI inflows from China. Canadians' views are relatively more negative about FDI from China than that from other foreign sources. Public concerns focus on the operations and implications of China's state-owned enterprises (SOEs), and China's investment in the energy/natural resources, real estate and high-tech sectors. Some Canadians have the suspicion that China's state-owned enterprises might come to Canada with specific political intentions rather than purely commercial ones, thus they might bring negative impacts on the country's national security, technological transfer/intellectual property rights, environment, labour/employment, law and standard compliance.

Based on the above-mentioned findings and analyses, we recommend that:

• The Canadian government and business communities should recognize the benefits of attracting China's outward FDI for Canada's economy.

• The Canada government should express clearly that the country welcomes Chinese investment.

• More research on China's FDI practices in Canada should be encouraged in order to get more accurate data and information for future policies. More research could be conducted in the future which would compare the performance of China's investment in Canada with investment from other foreign sources.

• Canada should learn from the experiences of Australia, the United States, and other countries regarding how to manage China's FDI in their countries.

• Canada's FDI regulations and review process should be clarified and simplified to attract Chinese investment for Canada's economic benefit.

• Canada should actively engage in a regular dialogue with China to discuss critical issues and resolve disputes through consultations.

To conclude, the rise of China on the global investment scene can be seen as the natural outcome of the rise and the structural transformation of China's economy that have been witnessed since the late 1970s. Indeed, this trend has led many countries and regions, including Canada, to redefine their roles regarding cross border investment in particular, and, given the impact on financial flows and industrial location, in the international division of labour in general. In this new and changing global context, China's outward FDI will be able to, at least in theory, improve the efficiency of worldwide capital allocation and help investors explore new business opportunities, thereby benefiting both sending countries and receiving countries as well as the global business environment. Obviously, there is still a long way for Chinese investors, especially the state-owned enterprises, to gain public confidence and build reputations in the host countries. In this respect, "sustainable development" and "win-win" perspective need more emphasis. At the same time, China's investment may lead to certain kinds of redistribution of income and wealth across the world, thereby creating "losers" and "winners." As with the process of globalization in general, the latter may create certain stresses. Nevertheless, there is a case to make that China's status as a new global investor, one of immense scale, should be welcomed, albeit with special attention paid to issues it may raise in terms of international cooperation and global governance. With appropriate dialogues introduced, China's emerging investment stature can prove not only manageable but an evolution in the best interests of all parties.

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INTRODUCTION

In 2000, the year when China officially initiated the "Go Global" investment strategy, the country's outward foreign direct investment (FDI) only amounted to USD 900 million, which was equivalent to 2.2% of China's inward FDI in the same year. However, thanks to China's high speed of economic growth, deepening financial reforms and various policy efforts, China has come to play an increasingly important role in international investment. To a large extent, this trend even accelerated despite the global decline in FDI following the 2008 financial turmoil (see Graph 1). According to data released by the Ministry of Commerce of the People's Republic of China (MOFCOM), China's outward FDI advanced to USD 145.7 billion in 2015, ranking China second—behind the US—in terms of FDI outflows.

The boom of China's outward FDI, which has affected the host countries in many respects, has become the centre of public attention in a number of jurisdictions. In Canada in particular, the recent increases in the number of acquisition of home firms by Chinese state-owned enterprises (SOEs) on the one hand, and the Chinese buyers of properties in major cities on the other have already generated heated. Importantly, however, similar concerns have also been found in other top destinations for China's FDI, such as Australia and the United States (US). Generally speaking, questions have arisen about the motivations and behaviors of Chinese investors, the pertinence of host countries' FDI regulatory regime, and the economic and political impacts, real or perceived, of China's capital on host countries.

In order to gain a better understanding of China's new role as a global investor and its complex implications for Canada in particular, this paper provides a multiple-perspective analysis on these issues. Section I explains the main driving forces underlying China's outward investment, with the emphasis on the new economic and financial landscapes both in China and in the rest of the world. Section II reviews the main characteristics and trends of China's outward FDI in recent years. Section III addresses China's investment in Canada with reference to the US and Australia. Section IV examines Canada's overall investment climate, including growth perspective, institutional restrictions, and public opinions. Section V compares Canada's FDI policies and regulatory regimes with those in the US and Australia. Section VI presents main controversies and public concerns regarding China's FDI in Canada. Section VII concludes the paper by discussing the relevant policy implications going forward.

I. WHY DO THE CHINESE INVEST ABROAD?

China's significant increase in outward FDI has been attributed to a number of factors. First, as low-cost labour is no longer in abundant supply, the country is shifting its development model toward a consumption-led growth pattern. In this new context, many Chinese enterprises, especially those specializing in manufacturing and construction, are struggling with the problem of excess production capacity and the declining return to capital at home. Both these phenomena arise from China's investment-driven growth of the past few decades. Facing these challenges, an increasing number of investors are turning to overseas business opportunities, with the motivation of absorbing excess capacity and achieving higher profit. It is these factors which are key drivers of the recent boom in China's overseas infrastructure investments.

Second, due to security concerns and the country's goal of achieving sustainable development and social stability, China has been making efforts to ensuring access to energy and raw material supplies around the world. These efforts, along with the national strategy of industrial upgrading, also contribute to the growth of overseas investment in upstream industries. In fact, they are the major factors that motivate China's massive investment in the energy and mining sectors in Canada, Australia, and some African and Middle Eastern countries.

Third, in the wake of the 2008 financial crisis, international investment faces strong headwinds. Because of financial and economic uncertainty, and the deleveraging of corporations, households, banks, and governments, the declining supply of investment appears to be a worldwide phenomenon. For example, as Lewis et al. (2014) point out, since the onset of the crisis, housing, business, and public investments have all been below both their pre-crisis averages and projected trends in many OECD economies (the housing sector in Canada is an important exception).[1] It is even more the case for developing Asia, where countless infrastructure projects are eager to attract capital. According to an estimate from the Asian Development Bank made in 2009, infrastructure construction in the region, including electricity, road, and telecommunications, faces a USD eight trillion funding gap between 2010 to 2020.[2] There is no doubt that the rising global demand for capital funds pushes China to spread its capital across the world.

Fourth and lastly, thanks to the rapid industrialization and trade expansion experienced from the late 1970s, China has accumulated huge foreign exchange reserves, of which more than one third is in US treasury bonds.[3] Although this mammoth stockpile of currency reserves helps the country weather the financial turmoil relatively well, its negative effects on profitability and currency risk have been increasingly evident in the post-crisis era. To more efficiently allocate these financial resources, and to tackle relevant risks, both Chinese public (including Sovereign Wealth Funds and State owned enterprises) and private sectors have expressed a strong intention to diversify and expand their holdings of foreign nonfinancial assets, such as properties, mines, and factories.

II. TRENDS AND CHARACTERISTICS OF CHINA'S OUTWARD FDI

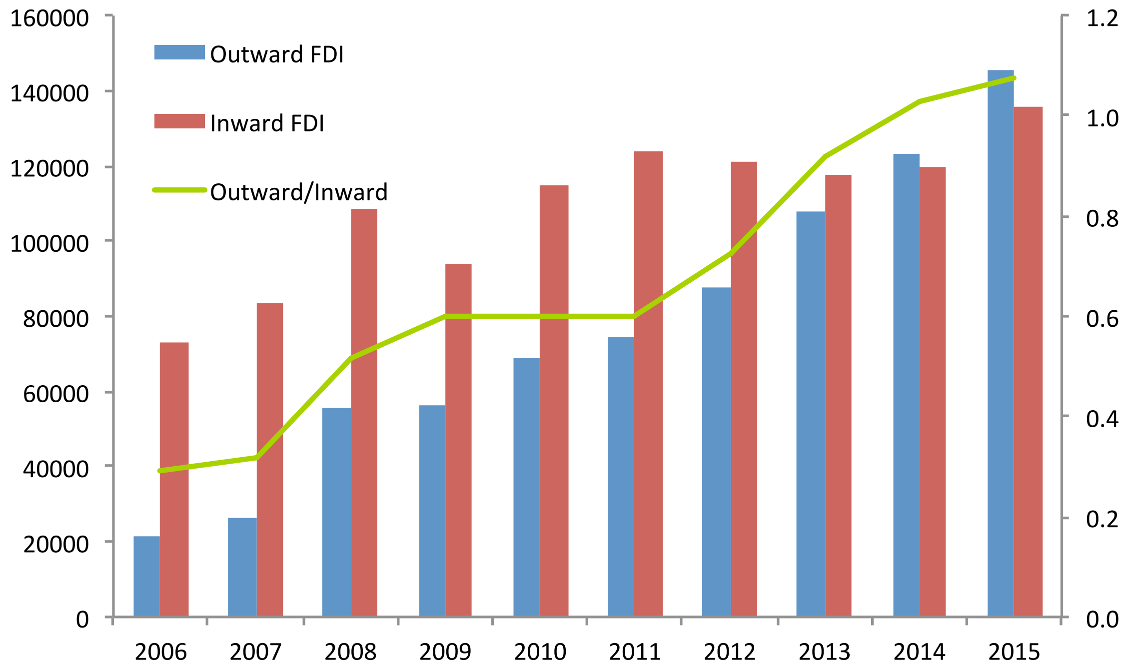
In general, there are six main features in the development and patterns of China's outward FDI by 2015. First, in reaching USD 145.7 billion, the country's outward FDI flows have exceeded its FDI inflows, which amounted to USD 135.6 billion in 2015. As a result, China has already become a net exporter of FDI – a historic event in the journey of China's integration into the global economy and financial markets.[4]

Second, China is, however, only in the beginning of its emergence as a major global investor. In fact, as shown in Table 1, compared to its GDP share in the world total, China's FDI stock, as distinct from flow, has a similar relative size to that of Brazil and India, but remains much smaller than those of some major advanced economies, as well as South Africa and Russia. The disproportion between national income and overseas FDI stock implies that China still has a large potential for raising its performance and profile in international investment.[5]

[1] OECD: Organization for Economic Co-operation and Development.
[2] See http://www.economist.com/news/asia/21646740-development-finance-helps-china-win-friends-and-influence-american-allies-infrastructure-gap
[3] As of July 2016, China holds a stockpile of USD 3.20 trillion of official foreign exchange reserves, of which USD 1.22 trillion were US treasury bonds.

[4] According to another measure equally provided by MOFCOM, China's FDI outflows were already greater than its FDI inflows in 2014. Also see Graph 1.
[5] For illustration, if China's outward FDI stock reached 15% of the world total (namely equal to China's GDP share in the world total in 2015), the stock would be USD 3.8 trillion, rather than the actual amount, USD1.1 trillion.

Graph 1: China's Outward and Inward FDI Flows



Notes: 1. Data come from MOFCOM.
2. Both outward and inward FDI are measured in million US$ and displayed on the left axis; the outward FDI/ Inward FDI ratio is displayed on the right axis.

Table 1: Outward FDI Stock and GDP in 2015

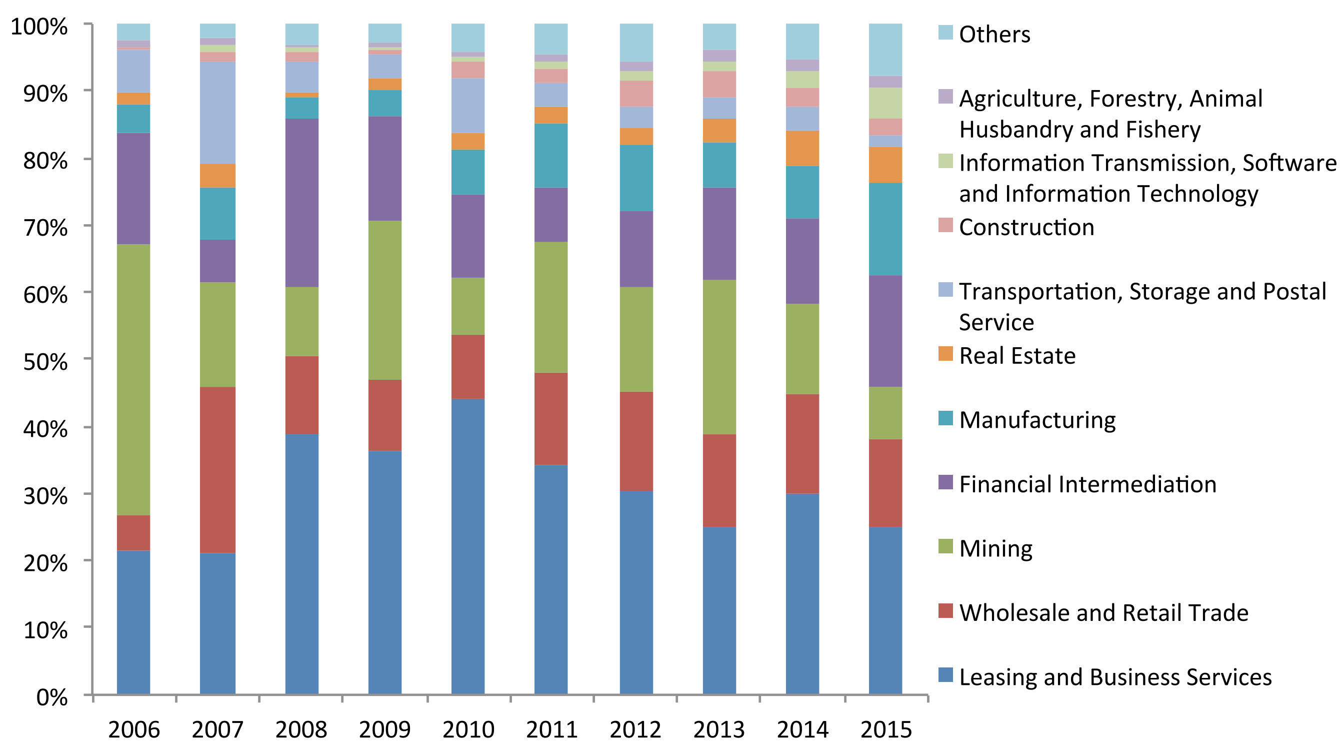
Countries\Indicators	Outward FDI Stock Share in World Total (%)	GDP Share in World Total (%)	Outward FDI Stock Share / GDP Share
Australia	1.58	1.82	0.87
Brazil	0.72	2.42	0.30
Canada	4.31	2.11	2.04
China	4.38	14.80	0.30
France	5.25	3.30	1.59
Germany	7.24	4.57	1.58
India	0.55	2.82	0.20
Italy	1.86	2.47	0.75
Japan	4.90	5.61	0.87
Russia	1.01	1.81	0.56
South Africa	0.65	0.43	1.53
United Kingdom (UK)	6.14	3.88	1.58
US	23.89	24.44	0.98

Data sources: MOFCOM-NBS-SAFE (2016) for China; UNCTAD (2016) for other countries.

Third, there are some major changes in the sectoral distribution of China's outward investment. China's overseas investment is now engaged in a wide range of sectors. In Graph 2, we show the distribution of the country's outward FDI flows by detailed industry level over the period of 2006-2015. As can be seen from the graph, "leasing and business services" (with investment holding as the primary purpose) has become the largest sector in terms of the concentration of China's FDI since 2008, accounting for nearly 30% of the total over 2011-2015. "Wholesale and retail trade," "mining," "financial intermediation," "manufacturing" and "real estate" are the other five major sectors to which China's investment goes. Among them, two are particularly noteworthy. The first is the "mining" sector, which includes oil and gas exploration, ferrous and non-ferrous metal mining, and coal mining and washing.

As shown in the graph, with a 40.3% share of the total in 2006, "mining" was the largest sector in terms of China's FDI concentration. In a sharp contrast, in 2015, the FDI received by the sector only accounted for 7.7% of the total[6]. The second is the "real estate" sector. Notwithstanding its negligible share, namely 1.8%, of the total in 2006, China's investment in the sector has witnessed an enormous expansion in recent years. Overall, during 2006 - 2015, the share of total FDI in the real estate sector was tripled to 5.3%. Notably, its annual growth rates are rapidly decreasing, down to 17.9% in 2015, from 95.9% in 2013 and 67.1% in 2014. In short, China's foreign investment is on track to become more diversified, especially in favour of tertiary industry. The latter accounted for about three quarters of both flows and stock of China's FDI in 2015. To some extent, this trend reflects China's transition to a consumption-led and service-based economy.

Graph 2: Sectoral Distribution of China's Outward FDI

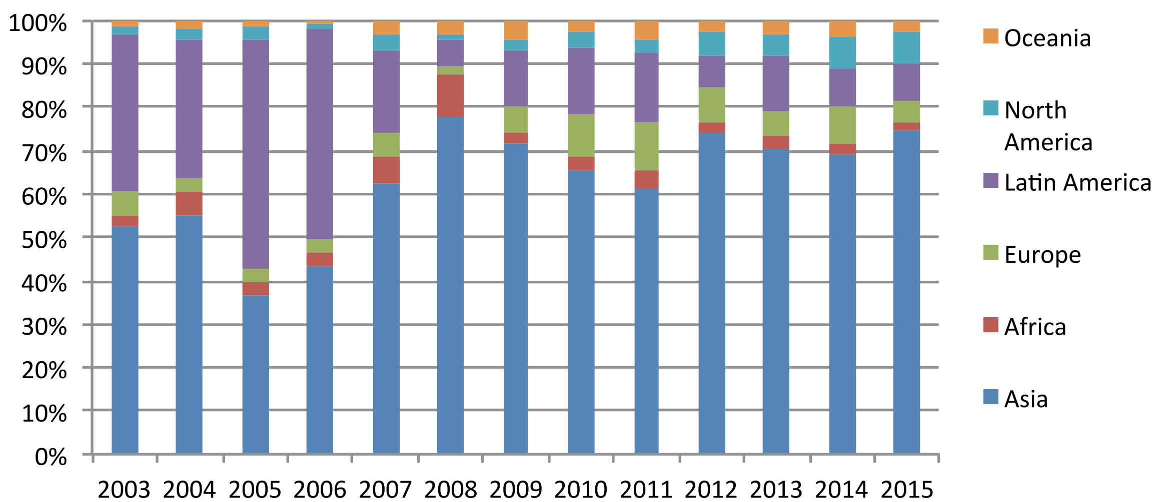


Data source: MOFCOM-NBS-SAFE (2016).

6 Notably, since the investment in mining sector is highly sensitive to energy and commodities prices, it is hard to conclude whether this decline is a trend or a temporary phenomenon.

Fourth, China's investments are unevenly distributed across the world. At the continent level, as displayed in the graph below, over 70 % of China's investment outflows go to its Asian neighbours and it may continue to be the case in the near future. By contrast, China's FDI in other continents fluctuates greatly, especially in Europe, where China's investment flows expanded by 82% in 2014, but sharply declined by 34% in 2015. At the county (region) level, apart from investments in some small open economies – an issue which will be discussed in the next paragraph – China's FDI flows to major economies witnessed a highly mixed growth performance in 2015. For instance, China's FDI flows to Australia and the European Union decreased by 16% and 44% on a year-to-year basis, respectively. In the same year, however, China's investment flows in Canada increased by 72.9%. It is also notable that China's capital flows heading to economies related to the "Belt and Road Initiative," including India, Indonesia, Russia, and Turkey, grew by 38.6% — more than twice as fast as the total global flows (see MOFCOM-NBS-SAFE, 2016).

Graph 3: China's Outward FDI by Continent

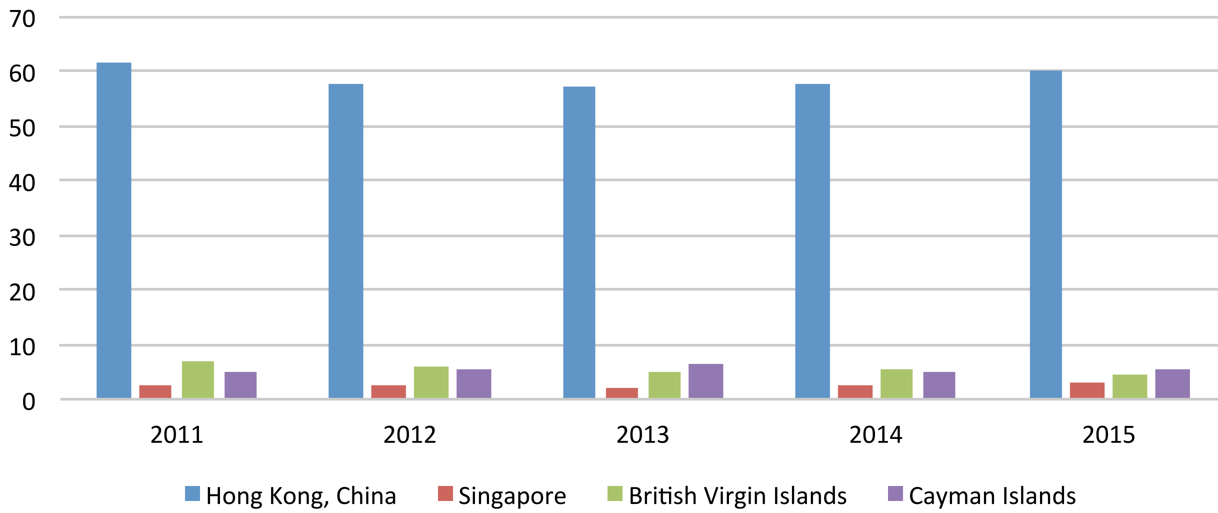


Data source: MOFCOM-NBS-SAFE (2016).

Fifth, China's overseas investments remain highly clustered in some small open economies, especially Hong Kong Special Administrative Region, China (hereafter, Hong Kong), which alone attracted 62% of China's FDI outflows and now represents 60% of its stock. Besides Hong Kong, Singapore, the British Virgin Islands, and the Cayman Islands have also received large amounts of investment from China (see Graph 4). Considering the sizes and other fundamentals of these economies, this kind of disproportionate concentration is due mainly to "round tripping" and "offshoring." In the case of round-tripping, China's funds are channeled abroad but are subsequently intended to return back in the form of inward FDI. As regards offshoring, the process is such that China's funds are first channeled to some offshore centres and then, from there, go to the rest of the world. These two kinds of practice attend to produce significant discrepancies between official figures and actual levels of China's FDI (both outward and inward). To deal with these statistical issues, some adjustments have been proposed by scholars. For example, according to the database developed by American Enterprise Institute, Hong Kong is treated as "just a transit point" (see Scissors, 2015), meaning that *all of* China's investments heading there are for the purpose of "round tripping" and "offshoring"; Alternatively, drawing from the method of Xiao (2004), Garcia-Herrero, Xia, and Casanova (2015) assume that 30% of China's investments in Hong Kong remain locally, and as a result, Hong Kong's share in China's global outward investment flows shrank from 58% to 17% in 2013. After reallocating the capital channeled through Hong Kong, they similarly estimate that Asia's share declined from 70% to 50%, whereas the share of North America *increased* from 5% to 14%.[7]

[7] It is also noteworthy that according to Garcia-Herrero, Xia, and Casanova (2015), China's total outward FDI would decline to USD 81.6 billion in 2013, instead of the official figure, USD 107.8 billion.

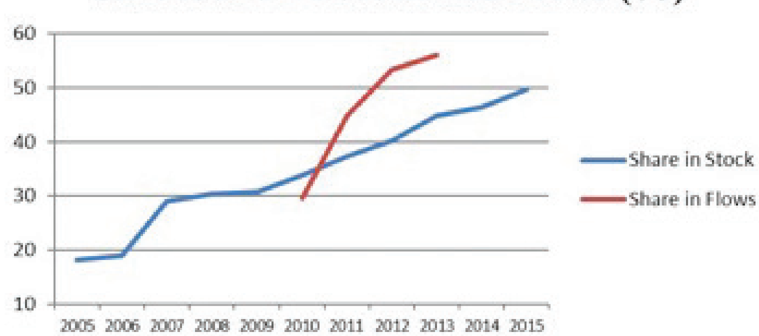
Graph 4: China's FDI Stock in Four Small Economies (% of the Total)



Data source: MOFCOM-NBS-SAFE (2016).

Sixth and lastly, in recent years, there has been a significant increase in Chinese outward FDI from non-state entities. As shown in Graph 5, the shares of non-state enterprises in non-financial FDI stock advanced consecutively from 19.0% in 2006, to 49.6% in 2015, and their share in terms of flows increased from 29.5% in 2010 to 56.1% in 2013. This dramatic change in ownership structure of Chinese investors has been driven by at least two interrelated factors. On the one hand, as more channels and networks are established, more small- and medium-sized entities have been involved in cross border investments and overseas business. It is obvious that the latter are mostly not owned by governments. On the other hand, the growing role of non-state investors is also associated with the aforementioned sector diversification of China's FDI outflows in favour of non-mining sectors, which are more likely to host smaller and non-state Chinese investors.

Graph 5: Non-State Enterprises' Shares in FDI Stock and Flows (%)

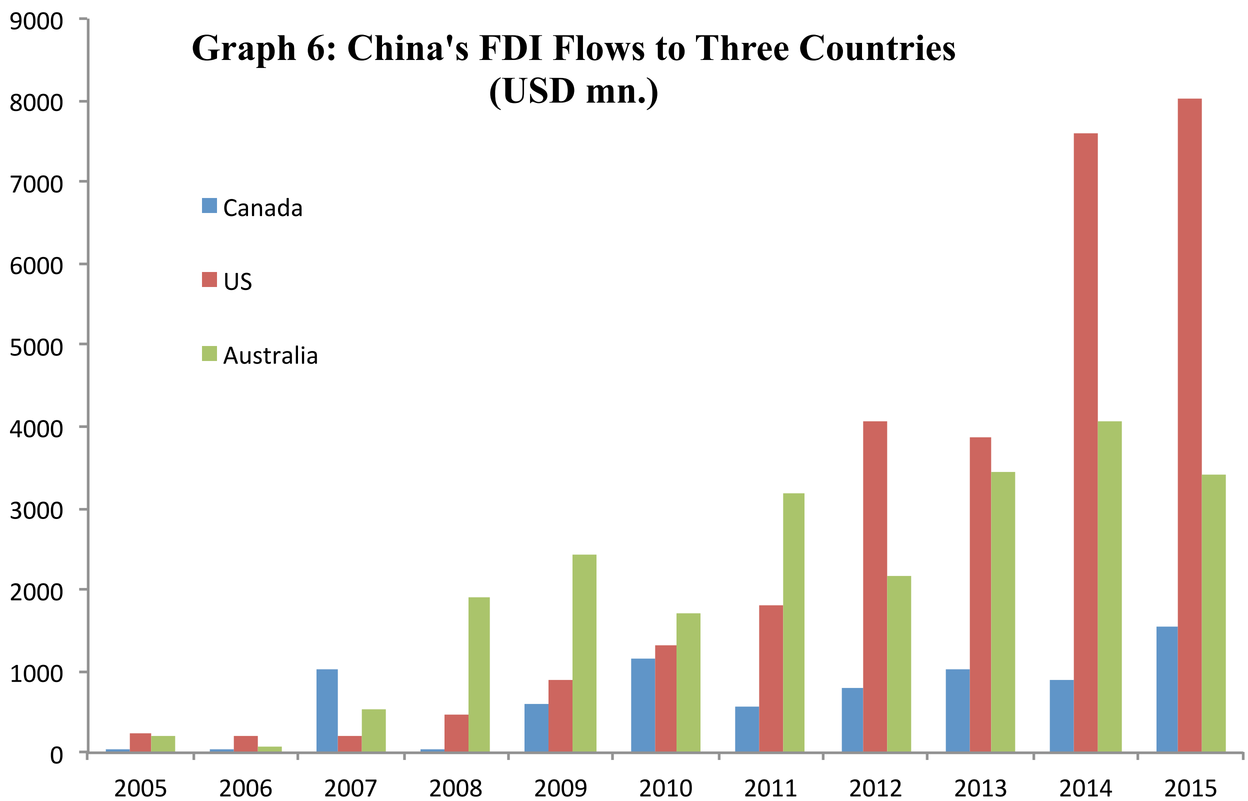


Data sources: MOFCOM-NBS-SAFE (2016), CEIC.

III. CHINA'S OUTWARD FDI IN CANADA WITH REFERENCE TO THE US AND AUSTRALIA

After describing the general features of China's outward FDI, this section addresses Chinese investments in Canada with reference to the US and Australia – both of which are major leading economies and top destinations of China's capital.[8]

First, according to MOFCOM, Canada received USD 1.563 billion direct investment from China in 2015, increasing by 72.9% compared to the previous year.[9] As shown in Graph 6, this figure is significantly smaller than those of the US and Australia, which attracted USD 8.029 billion and USD 3.401 billion capital flows from China, respectively. Notably, after controlling for the size of economy (measured by GDP), Canada outperforms the US in terms of hosting both the FDI inflows and stock, but remains far behind Australia (see Table 2), which has a particularly close relationship with China in regards to bilateral investment and trade.[10]



Data source: MOFCOM-NBS-SAFE (2016).

[8] According to American Enterprise Institute's China Global Investment Tracker, the US, Australia, and Canada are the top three destinations of Chinese FDI in terms of the cumulative investment stock from 2005-2015 (KPMG and University of Sydney, 2016).

[9] It is important to note that the inflows of China's FDI into Canada are highly affected by individual deals and thus subject to significant fluctuations.

[10] In November 2014, Australia and China concluded the negotiation of a Free Trade Agreement.

[11] Notably, a recent report from KPMG and the University of Sydney shows that some sectors related to middle class consumption, such as healthcare, agribusiness, lifestyle, and services have increasingly attracted Chinese investors in Australia (KPMG and University of Sydney, 2016).

[12] These negative flows can be attributed to the decline in investment and statistical adjustments.

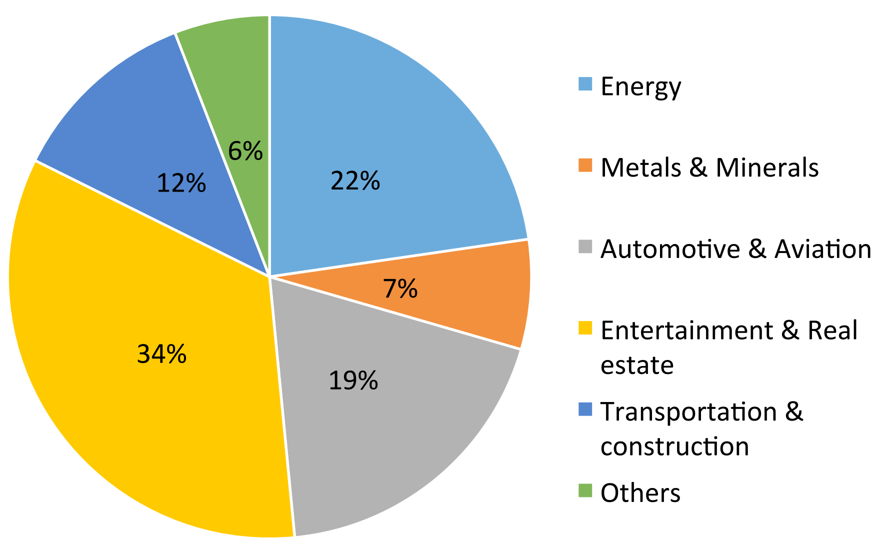
Table 2: China's Outward FDI in Three Countries in 2015

Indicators/ Countries	Canada	US	Australia
Flows (USD billion)	1.563	8.029	3.401
Flows / GDP	0.10%	0.04%	0.25%
Year-to-Year Growth of Flows	72.9%	5.7%	-16.0%
Stock (USD billion)	8.52	40.80	28.37
Stock Rank	10	4	6
Stock / GDP	0.55%	0.23%	2.12%
Year-to-Year Growth of Stock	9.34%	7.34%	18.81%

Data sources: MOFCOM-NBS-SAFE (2016) and UNCTAD.

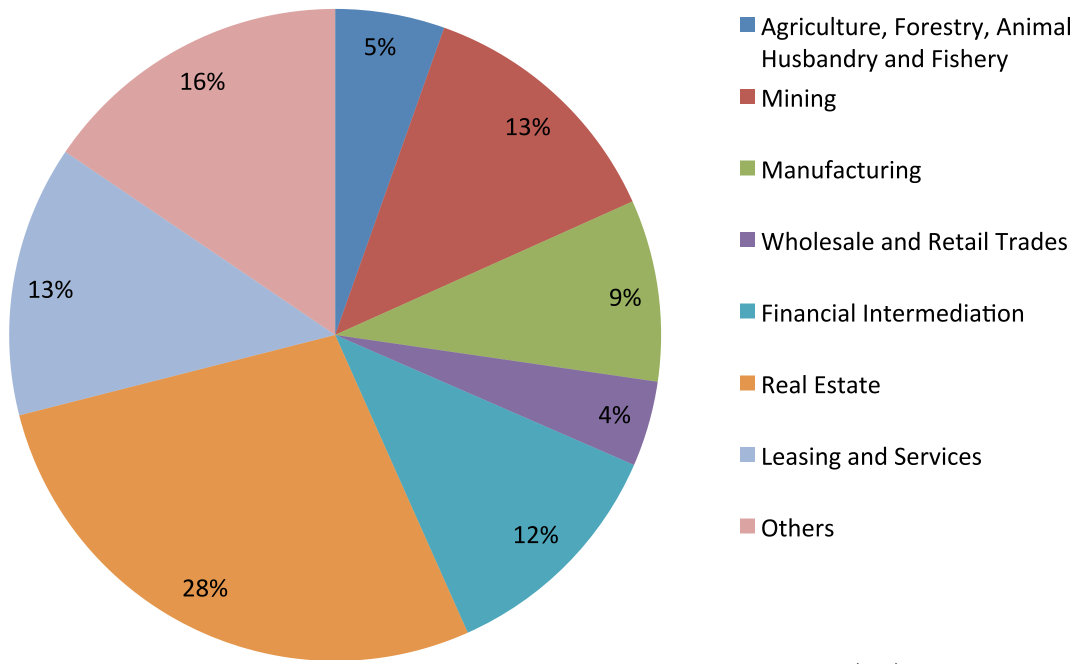
Second, turning to the sector structure, around 30% of the capital flows Canada received from China in 2015 went into "energy" and "metals and minerals," sharply down from 79% a year before (see Graph 7). By contrast, Chinese investors turned their focus to secondary and tertiary industries, especially the sectors of "automotive and aviation" and "entertainment and real estate." In 2015, the shares of those two investment hotspots attracted 19% and 34%, respectively, of Chinese FDI flows in Canada, whereas they attracted only 3% and 7%, respectively, in the previous year. Likewise, because of the decline in commodity prices and the weak recovery of the world economy, China's investments in the Australian "mining" sector also dramatically shrank to 13% in favour of other sectors including some tertiary industries as well as "manufacturing" (see Graph 8)[11]. Apparently, China's FDI in the US tends to concentrate in the secondary industry sectors, especially in the "manufacturing" sector whose share in the total has more than doubled in 2015. This is in sharp contrast with investments in "mining" and "financial intermediation" sectors, which attracted negative capital flows in the same year (see Graph 9)[12]. Other sectors receiving significant volume of China's investment include "leasing and services" (28%), "scientific research and technical services" (15%), "wholesale and retail trades" (11%), and "construction" (5%).

Graph 7: Sectoral Distribution of China's FDI Flows to Canada, 2015

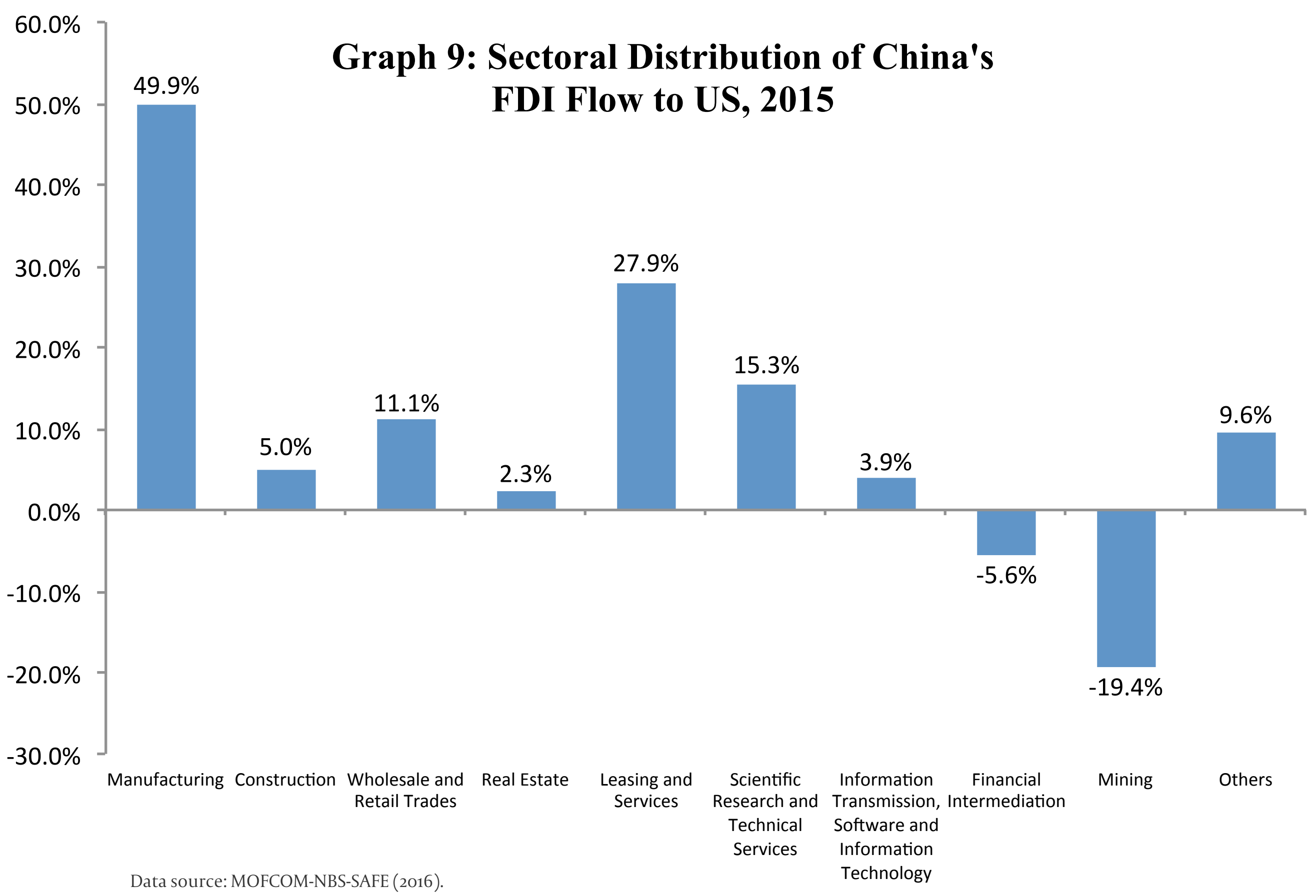


Data source: China-Canada Investment Tracker, China Institute, University of Alberta.

Graph 8: Sectoral Distribution of China's FDI Flow to Australia, 2015



Data source: MOFCOM-NBS-SAFE (2016).



Data source: MOFCOM-NBS-SAFE (2016).

Nonetheless, the above figures should be read with caution. As already mentioned, in view of the "round tripping," "offshoring," and differences in statistical systems, the statistics of FDI flows/stock differ from source to source. Notably and as an illustration of these "counting" issues the MOFCOM 2015 data reports that China's investment flows to Canada only reached USD 1.563 billion in that year, whereas the figure released from China-Canada Investment Tracker amounted to USD 3.291 billion[13]. This discrepancy is due mainly to the fact that some mergers and acquisitions (MA) deals via Hong Kong and other offshoring economies are not reflected in MOFCOM statistics, in which the host countries/regions refer merely to the first investment destination—a statistical principle commonly used. As a further example, the acquisition of Nexen by the Chinese state-owned company China National Offshore Oil Corporation (CNOOC) in 2012-2013, which alone amounted to USD 15.1 billion, is not included in MOFCOM's FDI data.[14]

Statistical discrepancies also colour the US data. Although the official data illustrated above suggest that China's investments concentrate in the US secondary industry, Hanemann and Gao (from Rhodium Group) recently argue that the industrial composition of China's FDI in the country has indeed become more diverse, with activities spreading in real estate, financial services, information and communication technology, autos, health and biotech, and entertainment. In addition, according to them (Hanemann and Gao, 2016), the total flows of China's FDI to the US in 2015 amounted to USD[15].3 billion, which is slightly smaller than the figure given by Heritage Foundation, namely USD17.98 billion. However, the amounts of flows from both sources are almost twice as much as the MOFCOM's official statistics, namely USD 8.029 billion[15]. To a large extent, the difference in these observations can also be attributed to data issues surrounding the aforementioned phenomena of round-tripping and offshoring destinations.

IV. CANADA'S INVESTMENT CLIMATE WITHIN A COMPARATIVE PERSPECTIVE

From a theoretical point of view, international capital mobility is mainly determined by the host countries' economic conditions and various political/institutional factors (see Walsh and Yu, 2010, and Zhang and Daly, 2011).

Regarding economic fundamentals, here we focus only on the GDP growth perspective, which appears to be one of the most significant drivers of FDI inflows[16]. As displayed in Graph 10, the forecasting from the International Monetary Fund (IMF) shows that Canada's economy will grow at, on average, 1.8% per year between 2015 and 2021. This rate is slower than those of Australia (2.8%), the US (2.3%), and the UK (2.1%), suggesting that compared to those countries, Canada has a disadvantage in attracting capital from China. However, Canada's growth perspective does seem to outperform that of Germany (1.4%), France (1.5%), Italy (1.0%), and Japan (0.5%).

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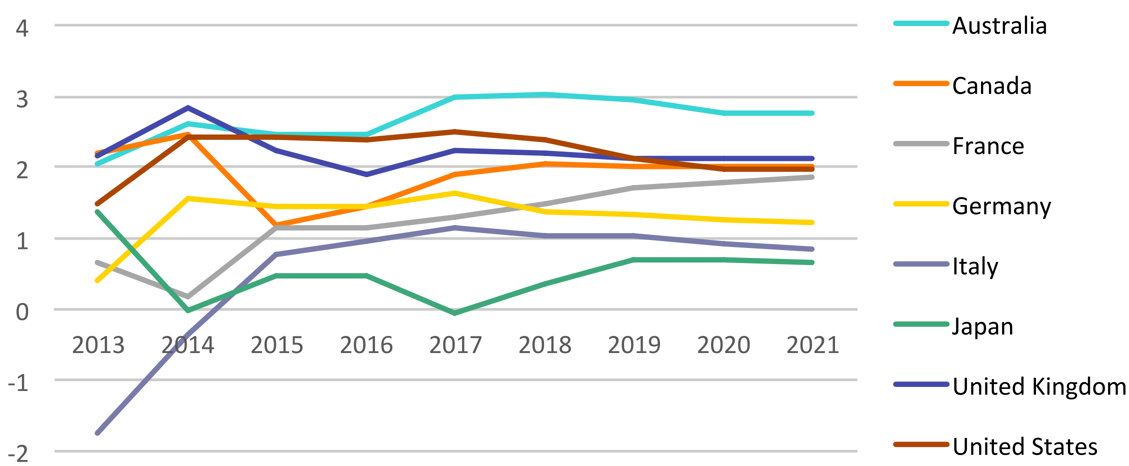
[13] In addition, the MOFCOM and Statistics Canada report very different figures on China's FDI stock in Canada.
[14] Another example is the Shuanghui (China) - Smithfield Foods (US) deal in 2013, which reached USD 7.1 billion.

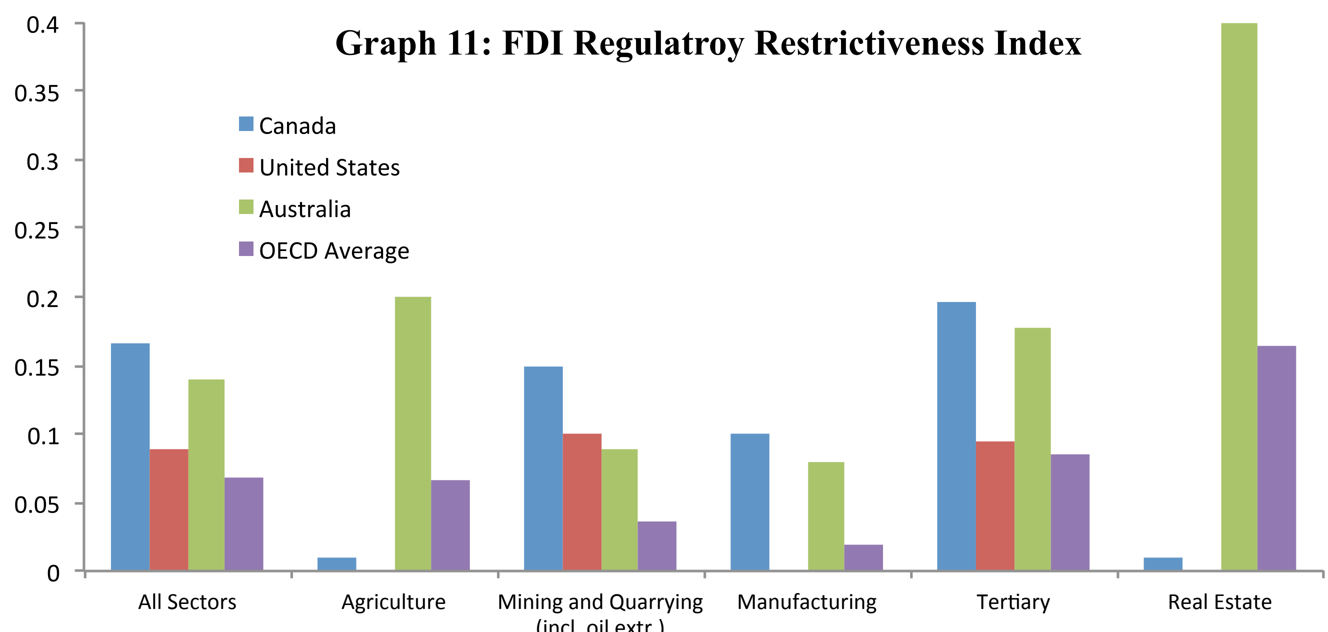
[15] It is also the case for Australia: KPMG reports that the country received USD 11.1 billion of FDI from China in 2015, whereas the MOFCOM's figure is only USD 3.4 billion.
[16] It is noteworthy that evidence does not provide support for a strong correlation between overall FDI inflows and other fundamental variables, such as trade links, exchange rate valuation, financial depth, and labour market flexibility (see Walsh and Yu, 2010).

Graph 10: Growth in Major Developed Economies

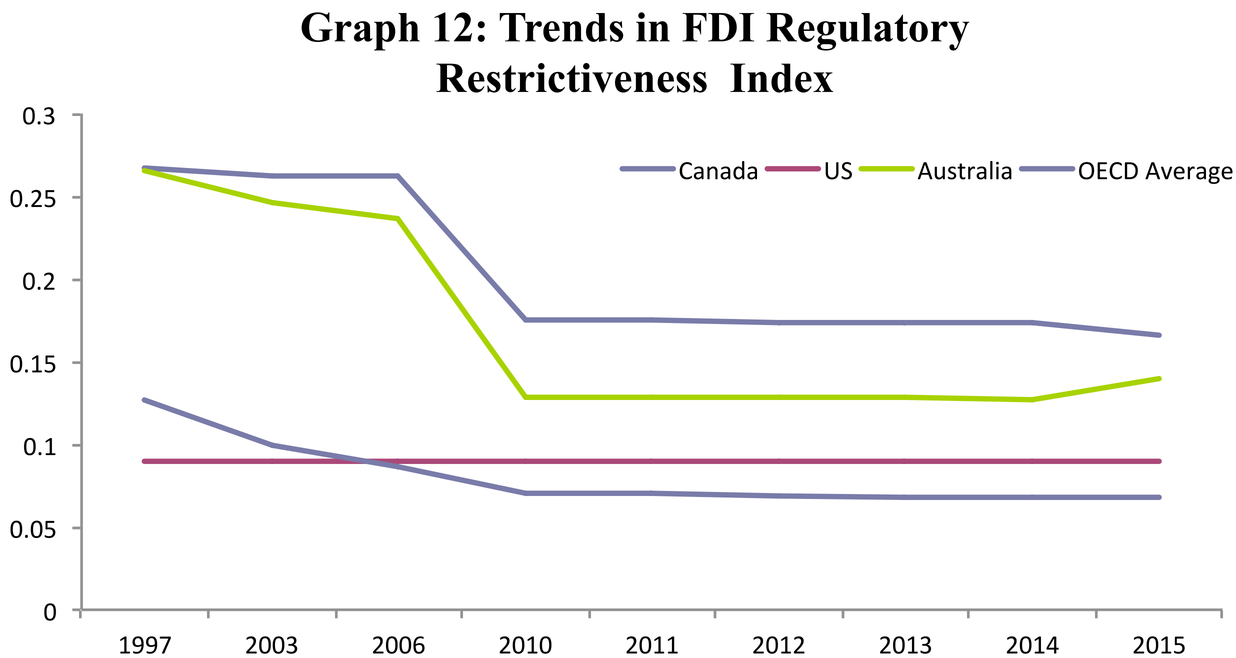


Notes: 1. Data from IMF World Economic Outlook Database, April, 2016;
2. Estimates start after 2015.

Next, we turn to the issues related to regulatory restrictions on foreign investment. Overall, there is some ambiguity in Canadian policies and attitudes towards the reception of foreign investment in general, and that from China in particular. This ambiguous feature can be seen from various aspects. First, as indicated in the OECD's FDI Regulatory Restrictiveness Index which measures "equity restriction," "screening approval," "key foreign personnel," and other types of restriction (see Kalinova et al., 2010), Canada imposes more strict restrictions on foreign investment than the US and Australia, especially in the sectors of mining, manufacturing, and services in which China's investments are mainly concentrated (see Graph 11). Indeed, although the FDI restrictions experienced an overall decline in recent years (see Graph 12), Canada's index remains one of the highest among the 34 OECD members - only New Zealand, Mexico, and Iceland were more restrictive than was Canada.



Data source: OECD.



Data source: OECD.

Second, the above observation is also somewhat consistent with the indicator established by the World Bank, the "Investing Across Sectors." According to the latter, Canada is less open to foreign equity ownership than many high-income economies, such as the US, Australia, the UK, Germany, and Italy. In particular, some restrictions on foreign capital participation are presented in the sectors of international passenger air transportation, telecommunication, and media.

Third, notwithstanding the tough restrictions, Canada was one of the most active countries/regions in terms of concluding International Investment Agreements (IIA). In fact, Canada concluded six IIAs with Cameroon, Côte d'Ivoire, Mali, Nigeria, Senegal, and Serbia, and an FTA with South Korea in 2014 (UNCTAD, 2015)[17]. Besides these newly signed deals, Canada-China investment treaty was also brought into force in October 1st, 2014. Clearly, despite preserving some regulatory space in the public interest, all these efforts are encouraging not only for Canadian investors but also for the investors from China and elsewhere.

Fourth and lastly, surveys show that there are mixed attitudes and increasing worries among the Canadian public about the FDI from China. For example, according to the recent nationwide poll conducted by Asia Pacific Foundation of Canada (APF Canada, 2015), the respondents displayed more divergent, indeed ambivalent, attitudes towards FDI from China than from Japan, the US, South Korea, and India. Overall, 42% of respondents support China's investment, while 49% say they are opposed. Moreover, another provincial survey conducted by the China Institute at the University of Alberta in 2015 shows that 43% of Albertan respondents agreed or strongly agreed with the claim "Alberta should welcome Chinese investment in the province." While this level of support is in line with the APFC national average for Canada, it does represent a *decrease* in approval of 6 % from the 2013 survey of Albertans (China Institute, 2015). Meanwhile, 30% disagreed or strongly disagreed with the "Alberta should welcome" statement, an *increase* of 2% compared to two years ago. Interestingly enough, in the shadow of the recent economic downturn, the latest China Institute Survey shows that more Albertan respondents tend to have a positive attitude towards the FDI from China - even including China's SOEs' participation in Alberta's energy sector, whereas more agreed with the statement that China's investments should be more regulated than those from other countries (China Institute, 2016). Overall, the merits of Chinese investment remain a source of divergent opinion in Canada and in Alberta, and remain susceptible to exogenous factors, such as the dynamics of energy prices. .

[17] As the Canada- South Korea FTA also contains provisions regarding bilateral investment, it is viewed as an IIA by UNCTAD.

V. OVERVIEW OF CANADA'S FDI REGULATORY REGIME

The Government of Canada has governed the inflows of FDI through a complex combination of law and policy. The history of Canada's FDI regulatory regime dates back to the passing of the Foreign Investment Review Act of 1973 and the subsequent launch of the Foreign Investment Review Agency (FIRA). Before these instruments were created, Canada did not have comprehensive regulations on foreign investment. The foreign and especially American presence in the Canadian economy, and in key sectors of industry, became an increasingly important political issue in the late 1960s and the early 1970s, when various economic-nationalist groups claimed, with increasing support among the broader population, that Canada was little more than a branch plant and resource colony of the US (Fry, 1983, p.79).

In order to respond to arising national sentiment, the Pierre Trudeau government established a task force to scrutinize the implications of foreign investment in Canada, which led to several government-sponsored reports analyzing the various problems caused by foreign owned enterprises in Canada. The Watkins Report (also known as Foreign Ownership and the Structure of Canadian Industry) of 1968 warned that the most serious cost for Canada resulting from foreign ownership was the intrusion of American law and policy on Canadian society (Fry, 1983, p.79), or "extraterritoriality" as it was often popularly termed. It recommended the creation of a special agency to monitor and regulate foreign investment in Canada, particularly in terms of foreign ownership of Canadian businesses and resources.

In 1970, the Wahn Report (also known as the Eleventh Report of Standing Committee on External Affairs and National Defense Respecting Canada-US Relations) expanded the idea of a screening process and reaffirmed that any future acquisitions of Canadian businesses by foreign entities should require the approval of a control bureau. The Gray report (also known as Foreign Direct Investment in Canada) of 1972 again recommended the creation of a screening agency and also specified some particular areas that should be forbidden for a foreign purchase. By 1972, public support for broader foreign investment oversight had become very strong. It was estimated in the 1970s that one-third of business activity in Canada was undertaken by foreign controlled enterprises. In some industries, such as petroleum and rubber product industries, foreign control exceeded ninety percent and over three-fourths of this control was held by US investors (O'Sullivan, 1980, p177).

As a result, the Foreign Investment Review Act (FIRA) was introduced in the House of Commons in May 1972 and it was finally passed in December 1973. The Act came into force in April 1974 and the FIRA was established to screen all new foreign direct investment proposals in Canada. From 1974 to 1985, new foreign investment proposals were required to be reviewed by the FIRA under the Act. The criterion for approval was based on a concept known as "significant benefits to Canada," which included measures related to job creation, productivity, and industrial efficiency.

In the 1980s, existing FIRA and regulations were criticized from both sides of the argument, by Canadian nationalists for their inefficiency in achieving intended objectives and by US investors, and often significant elements of Canadian business as well, who complained that the FIRA was arbitrary, secretive and complicated in the review process – and a disincentive to invest in Canada, especially at a time of lower growth in the Canadian economy from the mid-70s to early 80s. Further nationalistic measures in relation to the energy sector introduced in the early 1980s became especially controversial, particularly in western Canada.

As part of a strategy to project a more "open for business" message to the world, when Prime Minister Brian Mulroney came to office in 1985, the agency was renamed "Investment Canada" with a mission not only to manage investment controls but to actively promote investment as well. The Investment Canada Act (ICA) came into force on June 30, 1985, replacing the 1973 Foreign Investment Review Act. Although the Investment Canada Act in 1985 contained many provisions that were also included in Foreign Investment Review Act, the objective was to create a more welcoming environment for foreign investment while retaining the goal of ensuring benefit for Canada. The Investment Canada Act narrowed both the range of foreign acquisitions that are reviewable and the scope of the "benefit to Canada" test to which these transactions must be submitted in order to receive approval from the federal government (Frigon, 2011). In place of the significant benefit test, the Act introduced a new "net benefit" test.

Under the Investment Canada Act, a foreign investment over a threshold triggers a review process, which is determined whether the investment is of a "net benefit" to Canada. In the meantime, other federal and provincial legislation retained some options to restrict foreign investment in certain sectors, even while often undertaking promotional initiatives to encourage such investment as well. In 1992 by the conclusion of the North America Free Trade Agreement (NAFTA), the Chapter 11 was designed to establish a framework of rules and disciplines that provides investors from NAFTA countries with a predictable, rules-based investment climate, as well as dispute settlement procedures including the still-controversial investor state "right to sue" governments provisions.

In 2007, there were subsequently debates regarding increasing levels of global foreign state-owned enterprises (SOEs) investment into Canada, especially from the Chinese SOEs. Such concerns prompted the Canadian government to release a set of special guidelines, which focused on the governance of foreign SOEs and on the extent to which they operate as commercial entities. The guidelines began to distinguish between SOE and private enterprises and consider corporate governance and commercial orientation as the central criteria to determine whether or not foreign investments made by SOEs are likely to be of net benefit to Canada. A SOE is defined as an "enterprise that is owned or controlled directly or indirectly by a foreign government."[18] On September 17, 2009, on the recommendation of the Minister of Industry and the Minister of Canadian Heritage, the National Security Review of Investments Regulations came into force, establishing the process for national security review under the ICA. According to this amendment, any investment can be subjected to review if the industry minister has reasonable grounds to believe that foreign investment could be injurious to national security.[19]

In 2012, the Canadian government approved two controversial foreign acquisitions: the acquisition of oil and gas company Nexen by CNOOC and the acquisition of natural gas producer Profess Energy by the Malaysian government's national oil company Petronas. In the aftermath, the Canadian federal government announced additional guidelines for the review of SOE investments in Canada. The SOE guidelines were revised to intensify scrutiny of SOE investments in three ways. Firstly, the definition of SOEs was expanded to include companies that are "influenced" by foreign governments. Secondly, SOEs would be expected to be transparent, constrain state influence and operate according to free market principle. Finally, investment by foreign SOEs would be allowed to acquire control of oil sands business "on an exceptional basis only."[20] In April 2015, the Canadian government made additional changes to Investment Canada Act, which has affected foreign investment in all sectors of the economy with exception to cultural businesses and investments from SOEs. The changes included a new threshold for Investment Canada Act review (actually raising the threshold requirement for most investment reviews, but notably not for SOEs), a more elaborate and arguably burdensome notification process for non-reviewable investment and more time for national security review.[21]

Canada, Australia and the US have broadly comparable economic benefit and national security features in their FDI regulatory regimes and practices, though the US has not specific provisions or practice for review of "net benefit" or standards in economic terms. The following table summarizes the legal framework, primary review agency, review process, main criteria and review threshold of the FDI regulatory regimes in three countries.

[18] See Industry Canada Investment Canada Act, "Guidelines – Investment by State-owned Enterprises – Net benefit Assessment," https://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/lk00064.html#p2

[19] See Justice Law Websites of Government of Canada, "National Security Review of Investment Regulations," http://laws-lois.justice.gc.ca/eng/regulations/SOR-2009-271/FullText.html

[20] See Government of Canada's news release archives (December 7, 2012), "Government of Canada releases policy statement and revised guidelines for investment by State-owned enterprises," http://news.gc.ca/web/article-en.do?nid=711489

[21] In terms of revised threshold for review, the amendments implement the anticipated "enterprise value" review thresholds for the WTO investors, other than state-owned enterprises or a cultural business, and would increase the review threshold to C$600 million and ultimately to C$1 billion over the next four years. In terms of national security review process, the new review time periods potentially would extend to up to 200 days from 130 days, or longer on the consent of the investor.

Table 3: FDI Regulatory Regimes in Three Countries

	Canada[22]	Australia[23]	US[24]
Relevant legal framework and policy	• The Foreign Investment Review Act of 1974 • Investment Canada Act of 1985 2007 Guidelines for reviewing foreign investment made by state-owned enterprises • The 2009 Amendment: National Security Review of Investments Regulations • 2012, an additional guideline for the review of SOE investments in Canada • In April 2015, changes on new threshold for review, more burdensome notification process for non-reviewable investment and more time for national security review	• Foreign Acquisitions and Takeovers Act 1975 • The Foreign Acquisitions and Takeovers Regulations 1989 • Foreign Acquisitions and Takeovers Legislation Amendment Bill 2015; Foreign Acquisitions and Takeovers Fees Imposition Bill 2015; Register of Foreign Ownership of Agricultural Land Bill 2015 • Australia's Foreign Investment Policy 2015	• Trade with the Enemy Act of 1917 • The Export Control Act of 1949 • The Defense Production Act of 1950 • Executive Order 11858 of 1975 The Exon–Florio Amendment of 1988 • Byrd Amendment of 1992 • The Foreign Investment and National Security Act (FINSA) of 2007
Primary FDI review agency	With the exception of investments in cultural industries that are under the review by the Department of Canadian Heritage, Industry Canada is responsible for the administration of the Act. The Department of Canadian Heritage administers the Act in relation to defined "cultural businesses."	Foreign Investment Review Board (FIRB) provides recommendations to the Treasurer, but it is the Treasurer who has the final say in whether an investment will be approved or not; FIRB currently comprises four part-time Members and a full-time Executive Member.	The Committee on Foreign Direct Investment in the US (CFIUS) is the primary FDI review agency. It is chaired by the Secretary of Treasury and it has representatives from 16 departments. The CFIUS provides recommendation to the President who makes a decision whether or not to block the deal.
Review Process	The Minister of Industry has 45 days to determine. The Minister can unilaterally extend the 45 day period by an additional 30 days. Further extensions are permitted if both the investor and the Minister agree to the extension. In the case of investments in cultural businesses, the review will usually require at least 75 days to complete.	The Treasurer has 30 days to consider the application and make a decision. But the Treasurer may extend to 90 days by publishing an interim order if a proposal is very complicated.	The formal review consists of 3 stages: 30 days of review process, 45 days of investigation process, and 15 days of Presidential decision. Before a formal review, applications can have an informal preliminary review between the CFIUS and applicants.

Main Criteria for review	The criteria used to determine whether a non-cultural investment is of **net benefit** to Canada or not. Net Benefit refers to the effect of the level of economic activity in Canada on employment or resource processing, on the utilization of parts and services produced in Canada and on exports from Canada; the degree and significance of participation by Canadians in the new or existing Canadian business and in any industry in Canada; the effect of the investment on productivity, industrial efficiency, technological development, product innovation, and product variety in Canada; the effect of the investment on competition within any industry in Canada; the compatibility of the investment with national industrial, economic, and cultural policies; the contribution of the investment to Canada's ability to compete in world markets.	The review is to make sure that investment is not contrary to **national interest**. National Interest is not defined but some considerations are national interest considerations such as national security, competition, other government policy (including tax), impact on economy and community, character of investor; foreign government investors; agricultural investors; rules for acquiring agricultural/ rural land ; register of foreign ownership of agricultural land; rules for buying commercial real estate; rules for buying residential real estate.	The main criteria for review are of **National Interests**. Although the CFIUS review does not include national economic security and it implicitly limits itself to national security risks, the legislation does not provide a definition of national security. Key issues relevant to the CFIUS review include the impact on the US industrial base for defense and related technology or resources; critical infrastructures such as information technology, communications, transportation, energy and software; the impact on homeland security.
Review Threshold	Different thresholds for review apply in respect to private sector WTO investments, state-owned enterprises' WTO investment, and Non-WTO investments and investments in a cultural business.	Different thresholds for review according to different industries, private or state owned enterprises, and bilateral investment agreements.	There is no threshold nor set of conditions that trigger a national security review.
Equivalent Investment Agreement with China	China and Canada signed an investment treaty in 2012, formally known as Foreign Investment Promotion and Protection Agreement (FIPA), which was ratified in 2014.	China and United States have been negotiating a bilateral investment treaty for years. Since 2013, the two sides have held substantial talks.	China and Australia signed the first investment treaty in 1988. The two countries signed a free trade agreement with investment chapter that came into force on 20 December 2015.

[22] See Industry Canada, "Investment Canada Act," https://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/h_lk00007.html

[23] See Australian Government Foreign Investment Review Board (FIRB), "The Act & Regulations," http://www.firb.gov.au/content/fata.asp?NavID=11

[24] See US Department of the Treasury, "Resource Center: The Committee of Foreign Investment in the United States (CFIUS)," http://www.treasury.gov/resource-center/international/Pages/Committee-on-Foreign-Investment-in-US.aspx

VI. CONTROVERSY REGARDING CHINA'S INVESTMENT IN CANADA

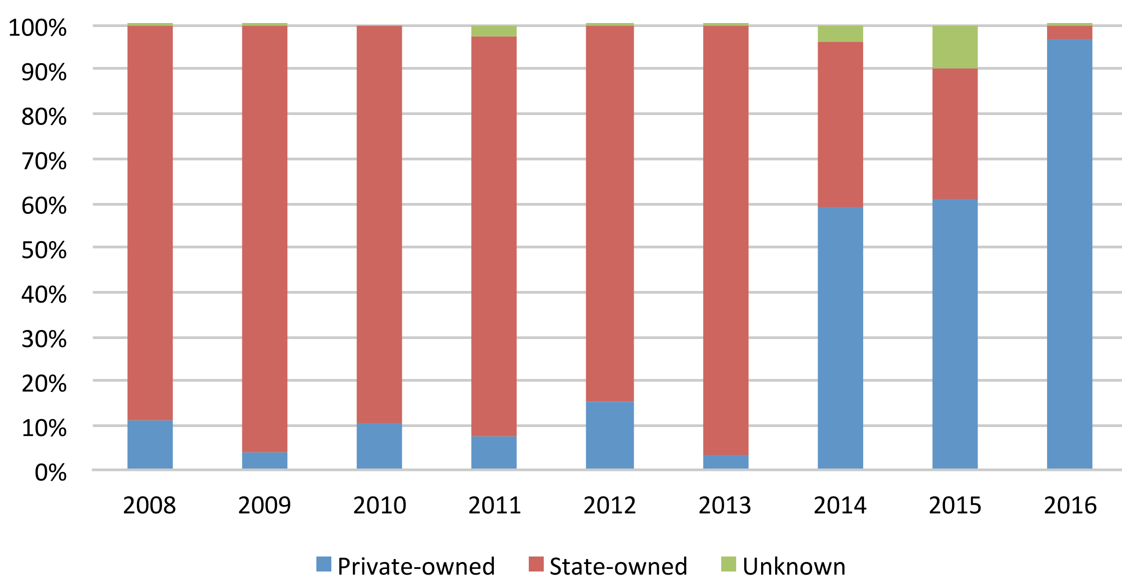
China's outward investment boom has already had observable impact on Canada in many aspects, including specific issues related to how well Chinese investments may have contributed to business opportunities and jobs. Other issues under scrutiny include its impacts on innovation, control of natural resources, protection of environment, health and safety or even broader questions of national security, and international relations, etc. In this context, the question on how Canada may accentuate the benefits of Chinese investment while mitigating any negative effects has been at the centre of the recent public policy discussion. In particular, this debate has focused a great deal of attention on Canada's policies and regulatory institutions regarding China's investments.

As discussed above, in conjunction with strict restrictions on inward FDI in general, Canadians' views are relatively more negative about the FDI from China than that from other foreign sources. Specifically, public concerns focus on the involvement of China's SOEs, and Chinese investments in the sectors of energy/natural resources, real estate, and high tech. Some Canadians have the suspicion that China's state-owned enterprises might come to Canada with specific political intentions rather than purely commercial ones, thus they might bring negative impacts on the country's national security, technological transfer/intellectual property rights, environment, labour/employment, law and standard compliance.

First, like many other cases, China's investments in Canada have also been mainly done by SOEs. There is little doubt that this feature of ownership strengthened the public concern over "non-economic" motivations behind the deals; for example, whether China's political or strategic objectives, especially in the energy and resource sectors, might be stronger than commercial considerations of other foreign investors – again especially with the high profile of SOEs among investments made. This concern was given voice by then-Prime Minister Stephen Harper in reference to the takeover of Nexen by CNOOC, when he claimed that Canada was not "for sale to foreign governments" (Vanderklippe, 2014).

Nonetheless, the issue may be evolving. Consistent with the general trend illustrated earlier, China's private investors have also been observed in Canada, recently taking a larger role. In fact, according to the data from the China-Canada Investment Tracker, the share of private investment in the value of investments has surpassed that of SOEs since 2014 (see the graph below).

Graph 13: China's FDI Flows to Canada, by Ownership



Notes: 1. Data come from China-Canada Investment Tracker, China Institute, University of Alberta
2. 2016 data as of September 2016.

Second, the controversy on the ownership structure is also closely intertwined with China's investments in oil, gas, and other natural resources. Those sectors, which still receive around 80% of China's FDI by aggregate cumulative value, are mainly dominated by a few giant SOEs, such as the aforementioned CNOOC who acquired Nexen in 2013.[25] Interestingly, the survey conducted by China Institute (China Institute, 2014) shows that 22% of Albertan respondents agreed that "Investment in Alberta's energy sector by a company owned and operated by the Chinese state (government) is acceptable" in 2014, with a decrease of 2% from 2012, while 59% of respondents expressing disagreement, with a two-year increase of 6%.

Third, the above-noted trend toward more and more private and individual investors from China heading to Canada is associated with the recent boom in China's investment in real estate. This phenomenon, which was, arguably, motivated by China's domestic considerations, such as the overheated housing market, the economic slowdown, and certain circumvention activities, are seen to have aggravated the overheating of the real estate sector in Canada. So, this trend has fed controversy of a different sort. In particular, although reliable and detailed data on the foreign investment in the housing market remain unavailable, individual Chinese investors are often regarded mainly responsible for the degradation of housing affordability and the overvaluation of properties[26] observed in major Canadian cities, especially Vancouver, and Toronto (see Sun , 2015).

Fourth, China's involvement in the high tech sectors also raises concerns in the shadow of technology transfer/leakage and national security. Some investment proposals in information technology, telecommunication, and equipment manufacturing, such as the cases of Blackberry and Bombardier, have been if not formally rejected – as no specific deal had been made triggering a review – then believed to have been discouraged from going forward under political pressure. It seems that there is no clear "negative list" regarding China's investors and therefore the investment risks associated with these non-economic factors can only be examined on a case-by-case basis.

Finally, before moving to the next section, we show in the table below some notable Chinese investment cases which faced controversies.

Table 4: Notable Cases with Controversies

Year	Description
2004	In October 2004, China Minmetals, a Chinese SOE, publicly announced its interest in purchasing mining giant Noranda for about $7 billion. The proposal led to an exceptional number of concerns about whether or not the Investment Canada Act should be updated. The deal finally failed due to political pressure. After this case, the Canadian government considered amending the Investment Act.
2009	In 2009, Athabasca sold a 60 per cent interest in its MacKay River and Dover oil sands projects to PetroChina. The Chairwoman of the US-China Economic and Security Review Commission warned that Ottawa should subject the proposed investment to a thorough review that would include sensitive national security issues. The Calgary Herald demanded Ottawa block the deal, fearing a future where China "makes important decisions about a premier Canadian industry."[27]
2012	July 2012, the acquisition of Nexen Ltd by China's CNOOC generated national debates in Canada. The Canadian Security Intelligence Service (CSIS) gave a rare warning that the takeover might endanger Canada's national security. Even though the Canadian government approved the CNOOC-Nexen deal, the government announced an additional guideline to review foreign investment from SOEs.[28]

[25] Also see Woo (2014) for a list of recent deals of China's investment in Canada.
[26] A key measure of housing affordability is the ratio of house price to household income, while a key measure of the fundamental value of a property is the ratio of house price to rent.
[27] See Kevin Libin, "We have seen the enemy," *Financial Post Magazine*, September 18, 2009, http://www.nationalpost.com/have+seen+enemy/2009081/story.html.
[28] See David Ljunggren, "CSIS warning on China security threat dogged CNOOC-Nexen debate in Canada," *Reuters*, December 24, 2012, http://business.financialpost.com/news/energy/csis-warning-on-china-security-threat-dogged-cnooc-nexen-debate-in-canada

2012	October 8, 2012, the House of Representatives' Intelligence Committee in the US warned that American companies should avoid doing business with Huawei and ZTE, two Chinese technology firms. The Committee gave the same warning for Canada. On October 10, 2012, Canadian government officials strongly indicated that Canada would exclude Huawei and ZTE in communications network projects because of possible security risk.[29]
2013	In August 2013, Beijing based computer manufacturer Lenovo Group., Ltd actively considered a bid for Blackberry Ltd. In November 2013, Ottawa made it clear that the Canadian government would not accept a Chinese takeover due to national security.[30]
2015	In September 2015, the Governor General in Council in Canada ordered a Chinese company O-Net Communications Group., Ltd to divest their purchase of the Canadian company IFT, formerly known as Avensys Inc. within 180 days. The Canadian government said that this five-million dollar acquisition would be harmful to Canada's national security.[31]
2015	On September 9, 2015, Bombardier Inc. turned down an offer to sell up to 100 per cent of its rail division to China's Beijing Infrastructure Investment Co., a government-owned enterprise. Bombardier Inc. had been under political pressure highlighting that such a purchase would face significant political opposition.[32]

VII. POLICY DISCUSSIONS AND CONCLUSIONS

Finally, we turn to the question of how Canada can benefit from China's emergence as a global investor while mitigating its adverse effects. In general, Canadian policy makers have to tackle a mix of short-termed and long-termed concerns regarding complex economic, social, and political implications, such as the economic prosperity, the sustainable development, and the national security of Canada. No matter how different these concerns may appear, they are not necessarily at odds with each other. Based on the recent trends of China's outward FDI, Canada's current economic status and institutional regulatory framework regarding the FDI, the following policy initiatives are proposed.

1. Recognize the benefits of attracting China's outward FDI for Canada's economy

From an economic point of view, China might become an important source of foreign capital that is able to finance the continued development of Canada's potentials in natural resources, infrastructure projects, renewable energy and new technologies in the near future. For China, the need for outsourcing natural resources to support economic expansion is one of the primary drivers of its outbound FDI. Nowadays, because of overcapacity pressure, the Chinese government is pushing infrastructure firms to go global. For Canada, a country that is rich in natural resources and energy and with an infrastructure deficit, it is likely that there will be complementarities with growing inflows of China's FDI into Canada. Canada's dependence on natural resources, especially the oil sands, has caused serious economic troubles especially as the prices of oil and other commodities have been falling since 2014 and as Canada's principal customer, the US, has become more energy self-sufficient. Thus further efforts are needed to attract more China's capital to invest in domains beyond natural resources, especially into the service sectors such as financial intermediation, health, and entertainment, in which more restrictions on FDI are currently imposed. In this regard, the diversification of China's FDI will help Canada diversify its own industrial structure and overseas trade patterns and hence plays a role in reinforcing its resilience in the face of global economic headwinds.

[29] See Greg Weston, "Canada 'at risk' from Chinese firms, US warns," *CBC News*, October 09, 2012, http://www.cbc.ca/news/politics/canada-at-risk-from-chinese-firm-u-s-warns-1.1213967

[30] See Alistair Charlton, "Lenovo blackBerry bid blocked by Canadian government over national security fears," *International Business Times*, November 6, 2013, http://www.ibtimes.co.uk/lenovo-blackberry-buyout-bid-blocked-canadian-government-520020

[31] See Elizabeth Thompson, "Harper government facing court challenge over secret OIC," *Ipolitics*, Sep 22, 2015, https://ipolitics.ca/2015/09/22/harper-government-facing-court-challenge-over-secret-oic

[32] See Benjamin Kang Lim and Matthew Miller, "Exclusive: Bombardier rejects Chinese offer for railway unit," Reuters, Sep 9, 2015, http://ca.reuters.com/article/businessNews/idCAKCN0R90VI20150909

2. Express clearly that Canada welcomes Chinese investment

Besides economic fundamentals, we also believe that proactive government initiatives - both from federal and sub-national federal levels, can significantly contribute to the attraction of the Chinese outward FDI. As an open economy, Canada should send clear and consistent messages that Canada welcomes Chinese investment. In Canada-China relations, the Canadian government needs to actively initiate more personal contacts with the Chinese senior leaders. Former Prime Minister Harper had appeared overly ideological and inconsistent in his China policy. The current Justin Trudeau administration should take a more pragmatic approach when balancing economic interests of engaging with China. At the sub-national level, as pointed out by Anderson and Sutherland (2015), the establishment of provincial Investment Promotion Agencies (IPAs) in China has an important role in the approval and placement of Chinese investments. That can be explained by the roles of the IPAs in bridging the information gap and reducing the so called "liability of foreignness." The latter encompasses various forms of social, economic, and legal costs. In view of the successful experiences of IPAs, further promoting and advertising Canada's investment climate and business opportunities are essential to improving the country's attractiveness vis-a-vis the FDI. In addition, more targeted and coordinated services for foreign investors, especially for small and medium sized enterprises, should also be welcomed and encouraged by host economic development authorities in Canada.

3. Investigate more deeply on China's FDI practice in Canada

More accurate and detailed dataset on the Chinese FDI in Canada are greatly needed, and more relevant research should be promoted. As shown above, the statistical standards and definitional framework of FDI vary significantly across different information sources. Given that the Chinese enterprises substantially route flows through Hong Kong and the tax havens in the Caribbean for outward FDI, there are obstacles in data collection. Consequently, it appears difficult to draw consistent conclusions on the characteristics of foreign investment in the country, and especially to conduct accurate international comparison including from the perspective of China's own practices in treating foreign investors, an issue that has often and increasingly been raised. In addition, the lack of detail and transparency in the FDI data also brings about a great deal of difficulty in, for example, tracing the capital's origins, and identifying the ownership and the purpose of overseas investors, etc. Obviously, the data problem is not restricted to the investment from China. In order to better understand the motives, operations and implications of China's outward investment in Canada, more research from disciplinary, interdisciplinary and cross-sector perspectives should be initiated. More relevant research papers or books, conferences, public surveys will contribute to a better understanding of this issue. Some surveys demonstrate that many Canadians vastly overestimate the extent of the Chinese investment in Canada.[33] Canadian Prime Minister Justin Trudeau and Chinese Primer Li Keqiang recently agreed to launch exploratory discussions for a possible Canada-China Free Trade Agreement. As many Canadians are still skeptical about the impact of this trade deal, it is necessary to carry out comprehensive analyses with accurate data and reliable methodology on the proposed Canada-China Free Trade Agreement including how it may affect investment flows and technology transfers in both directions. Meanwhile, more research could be conducted in the future which would compare the performance of China's investment in Canada with investment from other foreign sources on matters such as national security, technological transfer/intellectual property rights, environment, labour/employment, law and standard compliance.

4. Learn from others

Canada should draw lessons from experiences of Australia, the US and other countries regarding how to manage China's FDI into their countries. In recent years, the US, Australia and other developed countries have experienced similar debates regarding how to handle the Chinese outward FDI. But compared to the US and Australia, Canada has lagged far behind in attracting China's FDI. The competitiveness of Canada's economic vitality is related to international flows of capital from foreign countries. Canada should not ignore China's outward FDI.

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[33] According to the 2015 survey by the Asian Pacific Foundation of Canada (APFC), many Canadians vastly overestimated the extent of Chinese investment in Canada, suggesting it accounted for 25 percent of inflows when the real figure is closer to 3 per cent. See "National Opinion Polls: Canadians' view Asian investment," *APFC*, https://www.asiapacific.ca/surveys/national-opinion-polls/2015-national-opinion-poll-canadian-views-asian-investment

On a growth basis, China has been the number one investor in recent years. It is necessary to capture the opportunity of attracting more Chinese investment with appropriate regulations for the benefits of Canada. Due to intensified competition among countries to attract FDI, if Canada does not have a comparative advantage in FDI policy, China will invest in the US, Australia or other countries. An international comparison among Canada, Australia, the US and other developed countries (for example, some European countries) in their FDI regulatory regimes, FDI attraction promotion activities and FDI effects might inspire for the Canadian government regarding how to govern the Chinese investment in Canada.

5. Clarify and simplify Canada's FDI regulations and review process

Canada should take more steps to clarify and simplify Canada's FDI regulations and to review the process for Chinese potential investors. Canada's current FDI regulatory regime has come from a long way with numerous modifications. There are considerable debates regarding the validity and efficiency of Canada's current FDI regulatory regime facing the emerging challenges of China's FDI into Canada. Even though the thresholds triggering a review have been raised, and even though very few investments from any sources have actually been formally rejected by Canadian authorities in practice, some scholars question whether or not Canada should abandon the screening criteria from the "net benefit test" and replace it with a "contrary to national interest test." The purpose of attracting FDI is to improve a country's productivity and competitiveness in a long run. But Canada's review standard regarding the net benefit test might lead foreign investors with short-term targets of job creation and local demands. It is recognized that such a standard has led to foreign investment's over-concentration on Canada's natural resources and energy sectors. Australia also had a "net benefit test" in the mid-1960s and the mid-1980s, which witnessed a decline of capital productivity in that country. Since the 1980s, Australia has liberalized its FDI regime with the replacement of "net benefit test" by "the contrary to national interest test." Hence it is necessary for Canada to have a more careful scrutiny on its FDI regulatory regime and approval criteria. In the meantime, given recent changes on FDI regulations such as the different treatment for the Chinese SOEs, it is important to clarify the guidelines and procedures of the FDI review process, thereby building confidence among Chinese investors. The Canadian governments at federal, provincial and local levels should work together to engage China also at different levels and make them aware of Canada's FDI regulations as well as any major concerns Canadian governments may have over issues of regulatory compliance or industry best practices by Chinese investors operating or proposing to operate in Canada. It is necessary to simplify the review process, make reviews more transparent, facilitate information inquiry, and conduct survey on investors' main concerns to remove barriers.

6. Actively Engage in Regular Dialogues with China to Discuss Critical Issues

Especially with the Foreign Investment Promotion and Protection Agreement (FIPA) now in place, Canada should encourage dialogue with China to discuss critical issues on a regular basis and resolve disputes through consultations. Between August 29 and September 6, 2016, Canadian Prime Minister Justin Trudeau paid his first official visit to China and attended the G-20 leaders' summit. Less than one month later, the Chinese Premier, Li Keqiang, visited Ottawa and Montreal, Canada for an official visit, which is China's first high-level visit since 2010. These mutual high-level visits within a very short time have sent a strong signal that Canada and China now intend to pursue a stronger and more stable economic relationship between the two sides. In the joint statement, both sides agreed to promote practical cooperation in the areas of agriculture, energy, manufacturing, financial services and infrastructure; meanwhile, the two countries reaffirmed a commitment to launch the Canada-China Economic and Financial Strategic Dialogue at the vice-premier level.[34] The most important contribution of formal economic and strategic dialogues is the creation of a high-level communication channel between two countries. By doing so, Canada and China can meet regularly to exchange views on the recent development of bilateral relations, discuss critical issues and divergent views, and find the best ways to address common challenges. It is an important step for two countries to manage vital concerns and advance shared common interests in bilateral relations. Canada can draw some lessons from the China-US Strategic and Economic Dialogue, which has become a central avenue for China and the US to discuss controversial issues, promote political trust, and stabilize partnership.

[34] http://pm.gc.ca/eng/news/2016/09/23/joint-statement-between-canada-and-peoples-republic-china

To conclude, the rise of China in the global investment scene – from internationalizing the Chinese enterprises to internationalizing the Chinese currency – can be seen as the natural outcome of the rise and the structural transformation of China's economy that have been witnessed since the late 1970s. More importantly, in recent years, especially since after the 2008 global financial crisis, China, along with other emerging economic powers, has been reshaping global economic and political landscapes. For Chinese enterprises, there are still significant barriers to expand their business and succeed in more sophisticated economies. It is necessary to have an objective review regarding the major factors of the Chinese overseas investment today that might make host countries nervous. Many Chinese enterprises still have a long way to go when acting as both a business entity seeking profit overseas and a responsible investor contributing to the job creating and growth in host countries. It is certain that more and more Chinese enterprises have begun to realize that they need to improve their image with emphasis on the "sustainable development" and "win-win" perspective when operating business overseas. Meanwhile, when investing abroad, China's state-owned enterprises should make great efforts in making organization structure, personnel appointment, decision-making and financial source more transparent, thus gaining public confidence and building reputations in host countries.

Indeed, in this new and changing global context, China's emergence as a giant global investor, which can be regarded as an important aspect of increasing global connectivity, has complex implications for the world. On the one hand, massive FDI sourced from China will be able to, at least in theory, improve the efficiency of the worldwide capital allocation and help investors explore new business opportunities, thereby benefiting the whole world to some extent. On the other hand, it would also cause certain kinds of redistribution of income and wealth across the world, thereby creating "losers" and "winners."

Needless to say, it is also a crucial moment for Canada, which is not only one of top destinations of China's FDI, but also has suffered economic headwinds in recent years. In particular, facing the opportunities and challenges brought about by China's overseas investment boom, Canada's new leadership, which appears to place China as a more important policy priority (Han, 2015), should review the country's policies and attitudes regarding China in order to establish a more constructive bilateral relationship. Further proactive measures and new fields of cooperation can be considered and developed, such as a free trade deal, Canadian Dollar/ Renminbi direct settlements, and projects of high-speed rail and renewable energy. Contrary to the orientation of some popular media and political discourse in Canada and elsewhere, this does not mean, however, Canada should "sell out" to China. Instead, the issue at stake is how to redefine Canada's role in the global value chain, in view of its changing comparative advantages and constraints.

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