The Value of Foreign Direct Investment in the New Economy

Canadian Shield Institute

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Introduction

When the Prime Minister's Office announced plans for a landmark investment summit in Toronto, the quote in the news release from Prime Minister Mark Carney was emblematic of how Canada has viewed foreign direct investment for decades.

> "Canada has what the world wants. We're an energy superpower, with the most educated workforce in the world and rock-solid fiscal strength. The first-ever Canada Investment Summit will capitalise on those advantages to help drive billions in new investments into Canada. **That means more growth for our businesses, more high-paying career opportunities, and a stronger, more independent Canadian economy for all."**
>
> —Prime Minister Mark Carney (emphasis added)

Canada's governments have typically treated FDI as an unalloyed good: more investment drives more economic activity, more jobs, more prosperity. However, if it were as simple as all that, then Canada would already be prospering. Since the year 2000, Canada's FDI stock has grown by 5 times, from $319 billion to more than $1.6 trillion.

In 2024, Canada's inward FDI stock (the total value of all foreign direct investment in Canada) was 82 per cent of GDP, among the highest rates in the world. The United Kingdom has an FDI stock of 72 per cent of GDP. Australia is at 43 per cent. Germany is at a mere 27 per cent.

If FDI is good, why isn't Canada's economy doing 3 times better than Germany's?

The truth, of course, is that the situation is much more complicated. In this paper, we will argue that Canada's mindset towards attracting FDI must change. A more nuanced view of investment would mean avoiding certain kinds of acquisitions that actually weaken our sovereignty, and do very little to strengthen the Canadian economy.

Prime Minister Carney's own words are a good guide. When courting foreign investment, Canadian policymakers must ask themselves whether the money will actually:

1. Grow our businesses;
2. Create high-paying career opportunities; and,
3. Deliver a stronger and more independent economy for all.

Good foreign investment increases economic capacity. The best foreign investment supports Canadian businesses, allowing them to grow and prosper, while still maintaining governance and control rooted in Canada.

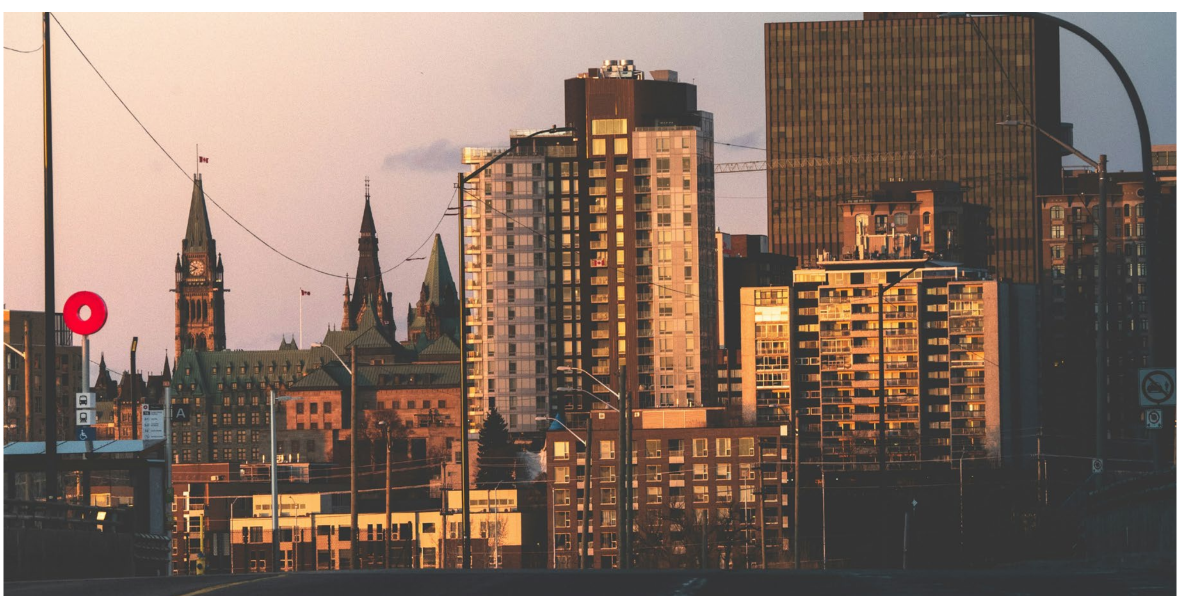
As we will see, not all of the $1.3 trillion in FDI that has flowed into Canada in the past 25 years has done any of that.

Defining Terms

Statistics Canada uses definitions of FDI that are rooted in standards developed by both the OECD and the International Monetary Fund. FDI is cross-border investment with the objective of establishing a lasting interest, and they use a 10 per cent voting stake in an enterprise as evidence of a "lasting interest."

FDI can take the form of "greenfield" investment, where a company starts a new enterprise and invests directly to grow an operation from scratch. Or FDI can come in the form of mergers and acquisitions, where a foreign investor buys an existing enterprise, which is sometimes referred to as "brownfield" investment.

In practice, this means that FDI can be a foreign company spending billions of dollars to develop a new mine, or FDI can mean a Spanish company buying a minority ownership stake in a Toronto highway. FDI can also mean fully acquiring a Canadian company to capture proprietary technology and IP. Or FDI can mean a venture capital investor injecting growth capital into a Canadian software startup in exchange for a 15 per cent equity stake. And it all gets lumped together in one big number.



A Very Brief History of FDI Screening in Canada

Canada has been reviewing foreign investment in some form or another since 1974. In its earliest years, the Foreign Investment Review Act (FIRA) reviewed essentially all foreign investment, and the law was criticized for being overly hostile to business investment.

FIRA was replaced by the Investment Canada Act in 1987, which was more permissive by design. The ICA set higher thresholds for what would be reviewed, and for more than 20 years, not a single foreign acquisition was blocked. To this day, only two foreign acquisitions have ever been formally blocked under the ICA net benefit test — MDA Space and the Potash Corporation of Saskatchewan.

In the 21st century, the government has tweaked the ICA to add new criteria to consider national security considerations and special screening for state-owned enterprises.

The overarching principle of the various investment review regimes has been a "net benefit" test, where the government considers six key factors to decide whether the investment is a good thing:

- Impact on economic activity including employment;
- Participation of Canadians and Canadian businesses;
- Impact on productivity, industrial activity and technology development;
- Effect on competition;
- Compatibility with existing industrial, cultural and economic policies; and
- Contribution to Canada's ability to compete in world markets.

In practice, a close review of the history reveals that the assessment has always been built around a conception of a certain kind of foreign investment. Traditionally a foreign firm would arrive with capital, technology and management expertise, and their plan to invest in Canada would be assessed on the basis of employment, productivity and technology transfer.

That may have been appropriate in 1985, but in the decades since the Investment Canada Act was first debated by Parliament, global capital investment has evolved into something else. We have seen a rise in what Professor Brett Christophers calls "asset management culture" where foreign acquirers are often financial intermediaries that do not build or operate anything in the country.

Asset managers like Brookfield, BlackRock, Apollo, Berkshire Hathaway and Macquarie invest institutional capital from pensions, insurers, sovereign wealth funds and banks to purchase assets that they manage and control but do not directly operate. Canada's position in this system is notable, with Brookfield being a Canadian company and a leading model of the modern real asset manager. Canada is not only a target of this model of financial ownership; it is also home to one of its most important global practitioners.

Under the newer asset management model, public infrastructure and private firms become "assets" that can be monetized in different ways. While income from the assets is beneficial to the manager, the main value is extracted in the sale of the asset. Knowing this, the asset manager can have an incentive to pursue aggressive strategies for short-term revenue extraction, cost-cutting, deferred maintenance and so on.

Thus, assessing the 'net benefit' of such an investment might miss the core reality that a successful investment in an asset may not mean that the asset performs its core function as infrastructure. Instead, an asset manager may deploy FDI capital in ways that drive up prices and raise other similar issues that are not in the national interest but still make for a profitable investment.

National Security

The first outright rejection of an FDI takeover came in 2008, when the Harper government blocked the sale of MacDonald, Dettwiler and Associates' space division (now MDA Space) to a U.S. firm. In the public discussion over the sale, national security concerns were raised, but at the time, there was no explicit provision within the ICA to block an acquisition on national security grounds.

The following year, in 2009, the government added a national security review regime. A few years later, in 2012, national security concerns again loomed over a pair of foreign takeovers of two companies in the oil and gas sector:

- Chinese state-owned CNOOC buying Nexen Inc, and
- Malaysia's Petronas buying Progress Energy Resources Corp.

The Harper government approved these FDI acquisitions.

The Role of the Intangible Economy

Another evolving factor in the assessment of foreign investment is the well-documented rise of intangible assets — intellectual property, trademarks, proprietary data, trade secrets and so on. In the intangible economy, the location of economic activity and the location of economic value can diverge significantly.

If Google hires a team of engineers and data scientists in Montreal to improve their ad targeting algorithms, Montreal will get the economic benefit of a few dozen highly paid salaries. Google will be able to monetize the algorithms they develop globally — potentially to the tune of billions of dollars of economic benefit.

Perhaps the most iconic example of Canada's foreign investment review system failing to properly account for the value of intangible assets is the acquisition of Nortel, which was sold off in pieces out of insolvency between 2009 and 2011 to mostly foreign buyers for roughly US$7.8 billion.

The two largest transactions were Ericsson's $1.13 billion purchase of the CDMA and LTE wireless business and the $4.5 billion sale of the residual portfolio of some 6,000 patents to the Rockstar consortium. Neither of these acquisitions was reviewed under the Investment Canada Act because the threshold was measured against the book value of the assets transferred rather than the price paid. Nortel's chief strategy officer told the House of Commons Industry Committee that the book value of the Ericsson assets was assessed well below the review threshold because it does not capture the intangibles, such as brand and IP.

In recent years, critics have been dismayed at a parade of smaller acquisitions of promising Canadian companies to foreign giants — firms like Nuvei, Verafin and Clearpath Robotics.

As of September 2024, the Investment Canada Act net benefit test now explicitly includes consideration of intellectual property and Canadians' personal information. More broadly, the government's policy updates have begun to recognize intangible assets, but largely treat them as assets that may require protection.

Towards a Comprehensive Sovereignty Lens for FDI

What we see in the history of review of FDI is an ongoing effort to protect Canadian sovereignty, while also allowing for Canada to enjoy the global benefits of trade. In the 1970s, it was organized around a focus on the amount of overall foreign ownership.

Over time, at various moments we have expanded our conception of problematic foreign capital investment to include special scrutiny of state-owned enterprises, to better consider intangible assets and Canadians' private data, or to more directly consider national security concerns. The fact that the framework has been evolving is a good thing.

At root, though, Canada's foreign investment regime was built to screen for economic benefit, and more recently for national security. Informally, we also see that Canada's overall approach to foreign investment has been overwhelmingly geared towards encouraging as much FDI as possible.

When looking at how peer countries treat foreign investment, we see that the de facto openness to foreign capital does not evenly line up with the de jure regulations that countries impose. Many countries, like Canada, have foreign investment review policies that ultimately come down to a judgement call by the government. Other countries which may not appear on paper to be particularly averse to foreign investment, in practice are able to place regulatory obstacles in place to dissuade foreign investment that is deemed to be less desirable.

In Canada, the ICA gives the Industry Minister significant discretion on whether to approve a foreign takeover. The fact that Canada went more than 20 years without a single foreign acquisition getting rejected is a reflection of the wider reality that Canada tends to court foreign investment enthusiastically.

We see this reflected in the steadily increasing stock of foreign direct investment in Canada, and the fact that Canada's rate of foreign investment is so much higher than most of our peers.

The reality that a country's receptivity to foreign investment is often divorced from a country's policies on paper makes it challenging to propose specific policies. While policy and assessment criteria can be a tool to frame the discussion, ultimately Canada will need to decide whether we want foreign capital — and what kind.

As it stands in 2026, the answer from the highest levels of the federal government is that Canada wants foreign investment. Prime Minister Mark Carney has said that he would like to see $1 trillion in new investment. The government has even gone so far as to suggest ideas like privatizing Canadian airports, to make them investable assets to attract foreign capital.

In studying foreign direct investment, the Canadian Shield Institute conducted a series of case studies on investments involving technology, strategic capabilities, and critical infrastructure.

Broadly speaking, we observed that there are significant negative consequences when foreign investment leads to ownership of economically important infrastructure.

Take the example of Ridley Terminals, a Crown corporation that was created to support the shipment of coal from two mines. The marine terminal in Prince Rupert, B.C. was privatized in a deal valued at $350 million. However, even after the marine terminal was being privately operated, the federal government still paid $75 million in 2022 to expand the terminal.

Another textbook case of privatizing important infrastructure is the Highway 407 ETR in Toronto, which was built with public funds by the Ontario government and sold for $3.1 billion in 1999. The consortium which bought the highway has been able to drive up tolls, to the extent that the asset's value appreciated significantly, to $32 billion in 2019.

Another notable example of foreign capital playing a role in key public infrastructure is the Sidewalk Labs project. Sidewalk Labs was notable in that it was a greenfield project, pitched as a high-tech "smart city" neighbourhood in Toronto with innovative technologies like robotic trash cans and building raincoats. Ultimately public opposition to the project caused a breakdown, and the proponents pulled out, citing financial reasons.

Concern around Sidewalk Labs was deeply rooted in the idea that a private technology company would be operating critical systems and collecting data about city residents in ways that could be exploited without sufficient consent.

Going a step further, though, case studies on foreign investment show that it's not just problematic when infrastructure is acquired, the same concerns present themselves when capacity is acquired through FDI.

Recent acquisitions illustrate how Canada continues to be able to lose strategically important capacity without ever triggering a net-benefit review. In August 2026, RBC and BMO agreed to sell Moneris, a Canadian payments processor that touches roughly a third of the country's business transactions. Moneris was sold to a U.S. private equity firm for about $2 billion — just below the current $2.18 billion Investment Canada Act threshold for review.

The sale prompted broader questions about whether payments infrastructure, merchant data and the technological capabilities surrounding them should be treated as strategic assets rather than ordinary companies.

Around the same time, AMD acquired Toronto AI-chip startup Taalas, its second Canadian chip acquisition in just over a year. Taalas was part of a small cluster of Canadian firms specializing in AI inference and compute efficiency, which is a strategically important layer of the AI value chain. It is not clear if a net benefit review was triggered for the deal.

A notable example of lost Canadian capacity is the acquisition of DNNresearch by Google. The unassuming press release by the University of Toronto in 2013 fails to capture the significance of this buyout. The company's name has been largely forgotten, but it is notable because this university-affiliated startup included both Geoffrey Hinton, the so-called "godfather" of modern AI, and Ilya Sutskever, who would go on to co-found OpenAI and serve as chief scientist for the company. The value of the acquisition was not publicly disclosed, but it appears that it was under the threshold, and therefore not reviewable under the Investment Canada Act.

A notable pattern we observed during our case studies was that private investment in resource extraction projects often faced significant scrutiny. Acquisitions of companies like Teck Resources by Anglo American required national security approval from the Industry Minister, under tightened guidelines for critical mineral companies.

In these acquisitions in the natural resources sector, the Canadian government plays the role of setting the conditions that allow a takeover to take place. Inaction from the government when Inco and Falconbridge were attempting to merge is often cited as one of the factors that enabled them both to ultimately get bought out. However, the government can also intervene when commitments made by foreign investors are not respected—as it did when U.S. Steel failed to deliver on its promises to maintain substantial Canadian operations when it purchased Stelco.

Targeting Beneficial FDI

The basic case for FDI is that Canada can benefit from more capital investment in our economy, and foreign investment is investment.

As we have seen, the government is not a passive actor. Through various mechanisms, including the Investment Canada Act and through policies aimed at attracting foreign capital, the government plays a significant role in shaping the foreign investment environment.

Canada can prioritize beneficial FDI, based on four broad criteria:

- Governance: FDI should preserve the ability to govern public infrastructure, including digital infrastructure;
- Security: Foreign ownership must not undermine Canadians' security when using platforms or systems;
- Strategic Capacity: FDI should not be allowed to shift control of strategic capacity in any domain, but especially in emerging technology;
- Function: Profit motives of foreign investors should not undermine the basic function, or significantly increase the costs, of infrastructure, especially when built with public money.

Canada should also specifically update national security review guidelines, to account for strategically important companies and technologies that may currently fall below the threshold for net benefit review. The government should apply added scrutiny to additional areas of concern, vital services and critical systems. Under this kind of system, a company, even a small one, operating in a sector that has been identified as a key area of concern, would automatically trigger a notice of review. The minister could then initiate the review, or allow the merger to go through without additional scrutiny.

Conclusion

Canada's fixation on sovereignty in 2025 and 2026 is unprecedented, but it is not the first time that Canadians have become concerned with our resilience and ability to prosper as an independent nation.

To navigate the geopolitical volatility we currently face, Canada will need investment. In many cases, there will be good reasons why that investment should come from foreign capital.

However, as it stands today, the overwhelming majority of Canada's foreign direct investment has come from the United States, and we are in a moment when we have seen the risks associated with deep integration. Prime Minister Mark Carney has even warned of "weaponized" interdependence.

There is no simple policy checklist or clear-cut rule that can be enacted which will ensure that all foreign investment is accretive to Canada, and drives growth and prosperity. As with many other policy areas, reorienting Canada's approach to foreign investment will require new policy infrastructure, institutions, strategy and knowledge from the government.

What we can say, though, is that Prime Minister Carney's metric for success is the wrong approach. Simply attracting $1 trillion in new investment capital isn't the answer.

The goal must be to ensure that investment capital is going to the companies and projects that drive real, tangible improvement in the Canadian economy, making us more resilient and prosperous over the long run.