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Press Release**

Institute releases Eleventh Working Paper

Hollowing out is only a threat in the absence of innovative business strategies and inspired government policy

The Institute for Competitiveness & Prosperity releases new findings on the importance of competition to stimulate Canada's prosperity

Toronto – For Canadians concerned about the “hollowing out” of our economy, the best defence is a good offence. That is the Institute’s response to the issue of foreign takeovers, which has risen in prominence over the past few years with the buyouts of Canadian icons like Alcan, Dofasco, Falconbridge, and Inco.

While these takeovers have been highly visible, the Institute’s research shows that, over the past two decades, the number of global leaders in Canada has actually increased. They are the Canadian firms that are in the top five globally in their business niche. In 1985, Canada had 33 global leaders; the number has grown to 77 this year. These global leaders, like McCain, Open Text, and Research In Motion, have competed on the basis of innovation, globally significant capabilities, and global expansion to generate prosperity.

Although foreign takeovers usually mean that a Canadian head office becomes a foreign branch office, there is no solid evidence that such “downgrades” have a negative impact on Canada’s prosperity. In fact, such foreign investment in Canada contributes to our productivity and prosperity. Head offices, whether Canadian- or foreign-owned, are important sources of high-value jobs, and public policy should not discourage foreign takeovers in order to preserve Canadian head offices.

These are among the key conclusions of Working Paper 11, *Flourishing in the global competitiveness game* released today by the Institute for Competitiveness & Prosperity.

“Hollowing out is one of those terms that evokes fear among Canadians,” said Roger Martin, Dean of the Joseph L. Rotman Schools of Management at the University of Toronto and Chairman of the Institute for Competitiveness & Prosperity. “It conjures up images of an economy where people have low-value jobs and carry out decisions made in foreign countries. But it really isn’t a good description of the impact of foreign direct investment.” The Institute and others conclude that foreign investment in Canada has increased productivity and the competitive pressure on Canadian firms for the benefit of all Canadians.

So, policies to block foreign takeovers will not raise our economic performance and our standard of living. In fact, they will do more harm than good.

But if Canadians are worried about hollowing out, then the best solution is to create an environment in Canada that stimulates the growth and development of globally competitive firms. “Successful Canadian firms that are taken over by foreigners typically have not expanded their operations outside of Canada in a major way. In today’s globalizing economy, firms need to establish a global footprint to thrive and survive. Foreign firms that want to expand in Canada will first consider buying an established business here,” said Martin. “Our research indicates that more than half of the Canadian firms taken over by foreigners were not aggressively driving for global expansion.” Management teams have to focus on global expansion of the successful business models they have developed here in Canada – or risk being taken over by more capable management teams from abroad.

The Working Paper applauds the conclusions of the federally appointed Competition Policy Review Panel, headed by Lynton “Red” Wilson. The Panel, which released its report *Compete to Win* in June, advanced the overall theme that the best defence for Canadian companies is a good offence. It acknowledged that it is difficult for them to win in the increasingly competitive world, but they cannot wait to begin taking on the challenge. Trying to shield our firms from global competition will only delay the challenge and make it more difficult to face.

The Working Paper and the Competition Policy Review Panel conclude that more competitive pressure placed on our businesses will lead to the benefits of more innovation and higher productivity. In turn, this will raise our economic performance and prosperity for us and future generations.

Martin concludes, “If Ontario and Canada are to achieve their full economic potential, we need inspired public policies to lower the cost of investment, reduce barriers to competition, define and support innovation more broadly, and improve our understanding of the needs of existing and aspiring global leaders. That way our firms and people can compete to win in the international arena – and realize sustainable prosperity.”

About the Institute

The Institute for Competitiveness & Prosperity is an independent not-for-profit organization established in 2001 to serve as the research arm of Ontario’s Task Force on Competitiveness, Productivity and Economic Progress. The Institute is supported by the Ontario Ministry of Economic Development and Trade. Working papers published by the Institute are primarily intended to inform the work of the Task Force. In addition, they are designed to raise public awareness and stimulate debate on a range of issues related to competitiveness and prosperity.

Please visit the Institute’s Web site www.competeprosper.ca for more information.

The complete report can be downloaded directly from:
<http://www.competeprosper.ca/download.php?file=WP11.pdf>

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