

## **CANADIAN RESTRICTIONS ON FDI END UP COSTING THE COUNTRY BIG**

In the paper *Implications of Canada's restrictive FDI policies on employment and productivity*, authors Walid Hejazi and Daniel Trefler measure the impact of distortions in the economy (namely restrictions on Foreign Direct Investment) by addressing three objectives:

- 1) Benchmark Canada's FDI performance both at the aggregate and industry levels;
- 2) Review OECD measures of FDI restrictiveness at the aggregate and industry levels and across countries;
- 3) Estimate the impact that restrictions on inward FDI into Canada have on the Canadian economy, particularly on employment, labor productivity and earnings.

This research shows FDI barriers are not only costly to Canadian consumers, but resulting inefficiencies have a "magnified effect" on the overall economy in terms of lagging productivity, fewer jobs and lower earnings. The research also highlights the merits of FDI to local economies and the importance of ensuring that basic business services sectors (key 'upstream' sectors air transportation, banking, and telecom) are operating as efficiently as possible.

### **CANADA IS THE SECOND MOST RESTRICTIVE G7 COUNTRY IN FDI LEGISLATION**

According to the OECD's FDI restrictiveness measure, Canada is considered to be a restrictive country, owing to two main reasons: 1) the presence of an automatic policy review mechanism for investments made by foreign governments or related parties above the threshold value (even though very few investments are formally turned down); 2) sector-specific restrictions, such as equity restrictions in banking and finance.

Among its contributions, the paper informs on how Canada compares to other countries at both the aggregate and industry levels. Contrary to the perception that Canada is wide open to FDI, the authors show that in fact Canada remains slightly more restrictive than the average within the OECD and is more restrictive than all other G7 countries except Japan.

### **RESTRICTIONS ON FDI COST THE ECONOMY 137,400 JOBS OR 9.6 BILLION IN LOST EARNINGS**

Existing restrictions on foreign entry cost the Canadian economy 137,400 jobs or 9.6 billion in lost earnings economy-wide (an average of \$648 for each Canadian worker). Leveling down Canadian FDI restrictions to average OECD levels would raise Canadian labor productivity by a very large 0.79%. Approximately 28% of the gains would come from liberalizing the three critical basic business services sectors: air transportation, banking and telecom.

Although sector-specific protection in the banking sector is costing jobs, it has shielded Canada from the worst of the 2008 global financial crisis. A similar argument cannot be made for either telecom or air transportation. It is important that the conditions be set so that these sectors operate as efficiently, and are as globally competitive, as possible.

### **LOSSES LOOM LARGER THAN GAINS IN SOME SECTORS**

Daniel Trefler and Walid Hejazi's research provides more complete insights on the overall effects of inward FDI on employment and productivity. While there are many sectors where Canada is quite open to inward FDI, other sectors that remain quite closed to inward FDI. In some cases, the costs of distortions may be greater than the amount of excess profits gained by the incumbents.

If Canadian restrictions on FDI come at a premium: who is paying it? Three basic business services sectors (air transportation, banking and telecom) provide critical basic business services to all firms across the economy. This means that when these key sectors have significant formal restrictions on foreign ownership, wealth is transferred from consumers to incumbents as inefficiencies are absorbed by all individuals and businesses that require these services.

**Hejazi, W. & Trefler, D. 2019. Implications of Canada's restrictive FDI policies on employment and productivity. *Journal of International Business Policy*, 2(2): 142-66.**