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The Marginalization of Corporate Canada

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INTRODUCTION

In the 1970s, Canadian nationalists saw multinational corporations [MNCs] as a threat to the nation state. They were concerned that Canada's sovereignty was being undermined by United States ownership and control of Canadian companies, by US cultural intrusions, and by the extraterritorial application of US laws. These threats were viewed as external to Canada, mounted in and driven by the United States. Some thirty years later, Canada's sovereignty is still perceived as being under threat, but now the threat is largely internally mounted and driven. The ongoing uneasiness about Quebec secession and the transfer of an increasing number of Canadian MNC head office functions and activities to the United States are seen as contributing to a significant weakening of the role of the national government and the fabric of the Canadian nation state.

Nation building has always been a preoccupation of Canada's political leaders. Canada was created to satisfy political, not economic, objectives. These objectives are explicit in references by the Fathers of Confederation to maintaining sovereignty, withstanding absorption, and preserving cultural integrity. The fear of being absorbed by the United States colossus has been a recurring theme in Canadian policy debates.

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Historically, much of Canadian public policy had to do with thwarting US economic, political, and cultural intrusions, real or imagined. What differs between the postwar pre-free trade era (before 1989) and today is the context of the assertions. Before free trade, Canada's political parties, and especially successive Liberal governments, worried that a Canada-US free trade agreement would inevitably lead to the diminution of Canadian sovereignty. This assertion was hotly and harshly contested by 'big business,' primarily Canadian MNCs and Canadian subsidiaries of US and other foreign MNCs. The leading spokesperson for these firms was the Business Council on National Issues (BCNI), a counterpart to the US Business Roundtable.

Not a week, and frequently not a day, goes by without at least one story in Canada's major media on relations with, and/or benchmarking Canada's performance to, the United States. Canadians obsess about the United States, while the US barely notices the presence of Canada - its largest and most important trading partner - on its northern border.

Canada's current preoccupation is fuelled by big business concern that decision-making centres and the head office corporate infrastructure of a growing number of Canadian MNCs are being lured to US locations with attendant consequences for Canada. Interestingly enough, the alarms are being rung by the BCNI with concerns reminiscent of Canadian nationalists during the 1980s free trade debates, but with far different recommendations for addressing the challenges.

For a growing number of Canadian MNCs, Canada has become significantly less important and attractive than the United States. North American regional economic integration has accelerated the pace of Canada's corporate integration into the US corporate landscape. The policy implications are many and potentially constraining on Canada as a nation state and as a spokesperson for Canadian business in the international economic, political, and judicial forums. Not only has Canada's direct power as a nation state been weakened, but its indirect power as well, namely, its ability to co-opt Canadian companies to serve Canadian national and global interests.

Countries ostensibly do not compete; companies do. But locational site competition between countries for head and regional offices, research and development laboratories and plants testifies to the contrary. Capital has no nationality, and business organizations increasingly make investment and location decisions through the prism of a growing borderless world. The relative attractiveness of the Canadian business environment, compared to that of the US, will not only determine how successful Canada will be in retaining and attracting foreign direct investment but also whether it will succeed in convincing Canadian-based companies to forego the lure of the United States in favour of retaining their corporate head offices and expanding their corporate business operations in Canada.

Canada is not alone in its concern about the transfer of head offices and critical corporate functions and activities to more favourable foreign jurisdictions. Global industry consolidation and US competition in general is causing Swiss pharmaceutical firms to re-evaluate their strategy of maintaining their headquarters and much of their research and development, international marketing, and production capabilities in Switzerland.[1] Leading companies in the Scandinavian countries are conducting similar reviews, and some, such as Ericsson and Astra, have already reconfigured and relocated critical components outside of Sweden.

Corporate strategic motivation and its impact on a MNC's global investment decisions are serious concerns for growing numbers of politicians and bureaucrats. The economic and political means that may be used to influence corporate behaviour in favour of one national jurisdiction over others are foremost in many minds. In Canada these concerns, issues, and challenges arise from the growing trend of investment and trade activities of Canadian companies in the United States and the strategic repositioning of Canadian subsidiaries of US multinational corporations in many of the important industry sectors of the Canadian economy. Although the Canadian situation is unique, it nonetheless provides a harbinger of what certain small and mid-sized industrialized countries may come to expect as members of regional economic groupings, particularly if there is a dominant political and economic power with whom they have a high degree of trade and investment interdependence.

THE PRIVILEGED POSITION OF BUSINESS

Historically, Canadian governments have seen domestic firms, specifically Canadian-controlled organizations, as potential instruments of national policy. Indeed, this view was critical to the promotion and realization of national goals set by Liberal governments in particular with their broadly based national policies. Charles Lindblom's point about the 'privileged position of business' in a private enterprise, market-oriented society resonated loud and clear.[2] Briefly, decisions taken by business people determine a nation's location of industry, market structure, industrial technology, composition and development of the workforce, trade orientation, and innovative capacity and performance. All such decisions have one thing in common: they are recognized as public policy decisions that have tremendous consequence for the welfare of any society.

Governmental interest and concern with business views and performance take on added meaning and significance in such a context, for example: as related to the effect of fiscal and monetary policies on business activity, in subsidies, in competition policy, in patent regulation, in trade policy, and so on. The role of government is to encourage because it cannot command business to perform in ways that support, advance, and help realize public policy goals.

Business rarely threatens collective action; it need only draw attention to the adverse consequences that may result from government not heeding its recommendation(s), as in the case of tax reduction. Government refusal to address business demands for a tax reduction may convince corporate executives to delay investment decisions until tax relief is forthcoming; or in today's global economy it may motivate the executives to invest in a more favourable tax jurisdiction. What is especially noteworthy is that corporate executives have great discretion when making such decisions.

The influence of a nation's history, political system, and culture affects the norms, values, and behaviour of executives in its national companies. Nationally influenced behavioural characteristics become an ingrained part of each company's 'way of doing things.' Unlike the US, Canada has historically retained a relatively closed political structure. It is dominated by two disciplined and hierarchical subsystems: the cabinet and the civil service. By the time legislation is introduced in the public forum of parliament, it has usually reached final form and is subject only to minor amendment.

For this reason, the political structure of the Canadian state tends to favour interconnections between political and market élites. The political system appears to encourage business to try to influence government in a closed, covert manner reinforcing a concept of the two parties working together to evolve policy through a process of 'elite accommodation.'[3] This form of élite accommodation began to be modified in the mid-1980s as a result of changes in the political system that involved both the policy decision-making structures and the public policy environment.

In the mid-1980s, with the election of a Progressive Conservative government under Prime Minister Brian Mulroney, the role of the government in the marketplace shifted significantly from a more state-dominated to a more market-dominated political regime. Support for government intervention in the form of regional economic development, state enterprises, business subsidies, national champions, trade protection, and restrictions on foreign ownership gave way to pressures clamouring for privatization, deregulation, lower taxes, and a hands-off, market driven philosophy.

The much disliked and dreaded Foreign Investment Review Agency (FIRA), established in 1974, was replaced in 1985 by Investment Canada, whose mandate was to promote foreign direct investment in Canada, and the National Energy Programme of 1981 was replaced by an energy policy left to the free play of market forces. The need for 'economic competitiveness' replaced the concern for 'political protectionism.' Increasing pro-market sentiment encouraged a reduction in the role of government in the economy. The Mulroney government was encouraged to push for the ratification of the Canada-US Free Trade Agreement (FTA) in 1989. Deregulation, privatization, free trade, and a welcoming policy toward MNCs became a Mulroney government mantra, largely adopted by its successor - the Liberal government elected in 1993, under Prime Minister Jean Chrétien, that is still in power.

The ratification of the FTA capped a series of economic and political events and developments that led Canada's government and citizenry to recast and refocus their orientation to one that is more outward and competitive driven.

TWO-WAY INTEGRATION BUT ONE CENTRE OF GRAVITY

That Canada benefited from the pro-market policy shift is undeniable. Trade performance in 2000 capped a decade of exceptional growth and was the principal driver of Canada's economic growth. Exports of goods and services were equivalent to 45.6 per cent of gross domestic product (GDP) and imports were equivalent to 41 per cent of GDP. Approximately 80 per cent of Canada's trade was with the US, much of it on an intra-corporate basis. Equally important is the significant level of bilateral investment between the two countries. Canada's relationship with the US is unique, all encompassing, and interdependent.

The volume of goods, services, and income from investment flowing between Canada and the United States is the largest bilateral exchange in the world. In 2000, US transactions with Canada approximated $740 billion, 52 per cent more than its second largest trading relationship with Japan, and 62 per cent more than trade with Britain. Canada bought approximately a quarter of US exported goods. The share of the US in Canada's exports of goods and services was 82.9 per cent and of imports was 72.1 per cent. At 72 per cent, or almost ten per cent of all US direct investment abroad, the US is by far the largest source of foreign investment in Canada. Canada, on the other hand, is the sixth largest source of foreign capital for the US, accounting for 8.1 per cent.[4]

FTA and later the 1994 North American Free Trade Agreement (NAFTA) accelerated the continental integration of the Canadian and US economies. While it would be naive to attribute a wave of North American corporate restructuring that has taken place since the late 1980s exclusively to the free trade agreements, it would be equally naive to dismiss the importance of the agreements. They accelerated the pace of integration and rationalization between US parent companies and their Canadian subsidiaries. The emergence of a bigger regional market, largely free from trade barriers, gave US corporate management added scope and incentive for realizing increased economies of scale - plant, product, and firm. Many see this phenomenon as promoting a North American regional economy; others see it as the integration of the Canadian economy into the United States.

The pace of cross-border mergers and acquisitions has intensified in recent years. In 2000, foreign corporations bought up 222 Canadian companies, to the tune of $102 billion, and Canadian corporations acquired 318 foreign companies for a total amount of $56.5 billion.[5] American and Canadian controlled firms were the key North American cross-border players. The impact of the mergers and acquisitions on the resulting organizational structure of many Canadian companies is worth noting. When a major US company acquires a Canadian-based firm, a different organizational outcome frequently occurs. Canadian acquisitions are quickly integrated, and frequently many of their head office responsibilities are either partly or fully transferred to the company's operations in the United States. A reverse organizational outcome is less likely to occur when Canadian companies acquire US firms.

The current transformation of 'Corporate Canada' has, in my opinion, potentially marginalized the Canadian business voice. The residual decision-making powers of Canadian subsidiaries of US and other foreign multinationals have been substantially reduced, and a growing number of Canadian MNCs are more preoccupied with policy input in the United States than in Canada. The Canadian chemical industry is a case in point. Largely US dominated, the Canadian subsidiary head offices of the major US MNCs have virtually disappeared or, as in the case of the two heavy weights - Dow and Dupont - have become mere shadows of what they used to be. The one major Canadian controlled chemical company, NOVA Chemicals, is now operationally headquartered in the United States.

Canadian MNCs

Most Canadian MNCs are small by US standards. In 2000, Canada was the only G-7 country that did not place a single firm in 'The World

Super 50' as measured in aggregate sales, assets, and market value; the US placed 26 firms in the super group.[6] In terms of revenue, Exxon Mobil, which ranked first among the Fortune 500 world's largest corporations, was seven times bigger than Canada's largest, Nortel Networks at 130th. Similarly Citigroup, ranked 12, was seven times larger than the Canadian Imperial Bank of Commerce at 322. Canada's largest Canadian controlled companies in aerospace, airlines, beverages, chemicals, computers, electronics, engineering, food production, forest and paper products, metals, mining, pharmaceuticals didn't even make the list. Only 15 Canadian controlled companies were ranked in the Fortune Global 500, and five of them were the Canadian banks.[7] The ratio of comparison frequently applied is that Canadian firms are generally one-tenth the size of the US firms.

MNCs realize that to stay internationally competitive they have to be global, and that means a significant presence in the United States. Successful Canadian MNCs with operations in the United States typically experience the phenomenon in which the Canadian portion of business pales in comparison to that in the United States. And, though the head office may be located in Canada, the US subsidiary normally acquires added decision-making powers because of the dominance of the US market, which accounts in many cases for the most substantial portion of Canadian MNCs' global revenues and growth. It should be noted that in the 1980s the trend was to transfer Canadian head office subsidiary decision-making functions and activities to US parents in particular; in the 1990s, strategic elements and/or functions of Canadian MNC decision-making activities were transferred to US-based subsidiaries.

For most US MNCs with subsidiaries in Canada, there is little economic justification for a Canadian headquarters. The free trade agreements accelerated the hollowing pace of US subsidiary head-offices in Canada and encouraged further rationalization and integration of Canadian operations with US domestic operations. On the other hand, for Canadian MNCs with significant subsidiary operations in the United States, there is not only justification for a US headquarters, but also for a North American headquarters located in part or in whole in the United States.

Another way of contrasting the Canadian and US MNC dichotomy is to note that for the former, the US market dominates management attention and strategic thinking. It is not surprising therefore that many Canadian MNCs appoint US nationals to senior executive positions, including chief executive officers (CEOs) and board members. Canadian companies that acquire US based companies tend to move rapidly to build onto the head office decision-making units in the US. This development recognizes the political downgrading of the Canada-US business border and the need to recruit experienced executives with the necessary expertise and industry credibility to expand the Canadian company's operations in the United States.

Nortel Networks, Canada's largest high technology company and at one time seen as a 'national champion,' is a glaring example of this phenomenon. In 2000, sixty per cent of Nortel Networks' corporate revenues were realized in the United States, compared to 5.5 per cent in Canada; 86.5 per cent of capital assets were located in the United States and only 7.5 per cent in Canada. The importance of the US operations resulted in a major transfer of corporate and senior executive responsibilities there. By late 1999, only 28 of the company's top 400 executives were located in Canada.[8] Of the ten nominees for election as directors at Nortel Network's 2001 annual meeting, four were based in the US (including a former governor of Michigan). The outgoing chair was a former secretary of defense in the Reagan administration, and former CEOs include a number of high profile US citizens.

Many Canadian MNCs are in fact binational corporations (BNCs), heavily anchored to the US platform and with significant US shareholder participation. They are led by management teams whose members increasingly include US nationals and whose Canadian nationals are largely US educated and/or trained. A good case in point is IPSCO Inc, a US$1 billion steel making and fabricating company. IPSCO shares are traded on the Toronto and New York Stock Exchanges. In 1999, IPSCO began reporting its financial results in American dollars. The decision to change the currency of its financial statements reflects the company's growing presence in the US where nearly 70 per cent of the company's fixed assets are located. In 2000, more than half of tonnage sales (58 per cent) went to US customers. That same year, IPSCO moved its executive offices (operational headquarters) to Lisle, Illinois, although it retains its legal head office in Regina, Saskatchewan.

IPSCO is not unique in moving its operational headquarters to the United States. NOVA Chemicals recently moved its operational headquarters to Pittsburgh but retained its legal head office in Alberta; the Thomson Corporation, a major diversified media company, has its registered office in Toronto and its operating head office in Stamford, Connecticut; Moore Corporation, a business communications firm, is headquartered in Toronto with executive offices in Stamford, Connecticut; and JDS Uniphase has dual headquarters in San Jose, California, and Ottawa. These firms are all among Canada's largest MNCs.

Canada's global competitiveness or the lack thereof has been of ongoing public interest and debate since *Canada at the Crossroads* was released in October 1991. The study, by Michael Porter of Harvard University and the Monitor (consulting) Company, was co-sponsored by the Canadian government and the BCNI. Porter's model of the key determinants of national competitiveness was used to diagnose Canada's performance.[9] Weaknesses were identified and recommendations were proffered, particularly in areas where the government should play a major role, that is, the macroeconomic context.

Michael Porter, in conjunction with the World Economic Forum Global Competitiveness Report (GCR), has also documented the decline of Canada's competitive performance as a global player in more recent years: 'Canada's overall competitiveness ranking, which combines measures of the quality of the microeconomic business environment and measure of the sophistication of company operations and strategy, dropped from 6th in 1998 to 8th in 1999 to 11th in 2000.'[10]

Recommendations put forward in 2001 on how best to improve the microeconomic environment for business are similar to those advanced by the business community a decade earlier. They can be best grouped in the form of 'needs': investments in education, training and specialized skills upgrading; public recognition and enthusiastic public support for companies and CEOs that succeed in the global arena of competition; and greater government support and entrepreneurial drive in fostering the emergence of vibrant industry clusters. In all three categories, business is calling on government to play a more proactive role, one of greater partnership with business. Reducing corporate and high personal income taxes and enhancing the microeconomic environment for business are recommendations that business believes clearly belong in the government hopper.

Business criticism of government has not gone unchallenged by Canada's senior government bureaucrats. For example, Peter Harder, deputy minister at Industry Canada, drew attention to the fact that in 1999 the World Economic Forum ranked Canada fourth in terms of a business-friendly environment and Canadian business 12th in terms of corporate strategy. The crux of these findings is that Canadian businesses are not doing enough of the 'right stuff.' Senior government officials are particularly critical of the lack of research and development, product design, and geographic market diversification undertaken by Canadian firms.[11]

How countries rank is an important concern for the political leaders and policy-makers of any country. Rankings provide some sense of a country's relative strengths and weaknesses, on a comparative basis. However, excessive reliance on the findings of any one benchmark should be avoided. Canada, for example, recently came off much better in ranking by another prestigious benchmarking organization. In 2001, the Economist Intelligence Unit (EIU) projected that Canada would be the fourth-best country in which to conduct business from 2001 to 2005; the Netherlands ranked first, the United States second, and Britain third. The EIU model considers 70 factors that affect the opportunities for, and hindrances to, the conduct of business in each country.[12]

The problem with benchmarking is that different organizations come up with different rankings for the same country because they all employ different models. Governments and business are adept at releasing rankings that are self-serving, just as academic institutions cherry pick from rankings that provide the best possible spin for their institutions.

During the spring of 2000, BCNI held a CEO summit as part of its 'Canada Global Leadership Initiative.' BCNI's membership, composed of CEOs from 150 leading Canadian corporations, represents every key sector of the Canadian economy, and, in the words of the BCNI, its members 'are responsible for a significant majority of Canada's private sector investment, exports, training and research and development.'

'Global Champion or Falling Star?' a BCNI paper presented at the summit acknowledged that Canada's performance in recent years was solid measured in terms of real growth in GDP, employment growth, low levels of inflation, improvement in fiscal position, foreign trade and direct investment performance, cost advantages as a place to invest, highly educated working age population, social infrastructure, environmental sustainability, and global competitiveness.[13] Nonetheless, it also contends that Canada's improved performance had more to do with 'catch-up than lead.' Storm clouds were identified: high taxes; capital flight into foreign securities; high income brain drain; emigration of young achievers, many of whom represent the next generation of leaders; and political instability. These realities put pressure on Canadian-based enterprises to consider moving head offices and/or strategic corporate functions to the United States. In an internal survey of the BCNI membership in 1999, forty per cent of CEOs from Canadian and foreign-owned companies alike thought that there was a 50/50 probability, or higher, that their own jobs would leave Canada within ten years.

What can be done to address these storm warnings? BCNI and its many industry association allies want significant reductions in corporate taxes. As of 1999, Canada's tax burden as a percentage of GDP (36.8

per cent) was substantially higher than many of its trading partners, including the other two members of NAFTA, US (29.7 per cent) and Mexico (16.9 per cent). Although the Chrétien government is committed to lowering corporate taxes to match the US level by 2004, business lobby groups and many 'think tank' supporters such as the Fraser and the C.D. Howe Institutes have advised the government that matching the current US benchmark is not good enough; Canada must do better.

In 2000, the Public Policy Forum, a Canadian organization comprising leaders from the private, public, and voluntary sectors, initiated a research project on the impact of globalization in Canada and its implications for Canadian governance. As part of the project, the Forum is studying the public policy implications of increased Canadian economic integration with the United States. The industry leaders interviewed identified NAFTA as the most important driver of change. The views of the industry association leaders are particularly noteworthy: 'It is essential for Canadian business to access the American market to grow and survive ... Fewer decisions are "Made in Canada." Corporations are adjusting for the North American market and strategic decisions are more frequently taken south of the border ... We tend to overrate Canada's better quality of life compared to the US. [It] has little effect to either attract firms or retain those who consider leaving ... Some government policies and regulations, as well as personal and corporate taxation, should be harmonized with those of the US.'[14] These views echoed the BCNI findings, which also included concerns about the further erosion of decision-making in Canadian business. That the findings are similar is not surprising since there is considerable overlap in membership among business leaders and their companies in Canadian associations.

For Canadian organizations, the benchmark for comparison is typically the United States, and the goal of reducing the corporate tax bite is shared by business associations in both countries. The US Business Roundtable sings the same refrain: 'US firms also have increased tax and compliance burdens compared to their foreign counterparts. Addressing these issues is critical for US companies, whose success or failure in competing at home and abroad will have a significant impact on jobs, individual incomes, and prices.'[15] In brief, Canadian business points to the United States when arguing the need to lower Canadian corporate taxes to the US level, and preferably lower. Simultaneously, US associations draw attention to other jurisdictions with lower and less complicated taxes, arguing the need to match those levels if they are to be globally competitive.

Canada will face increasing transnational policy spill-over pressures as more Canadian companies increase their US operating presence. The pressures will not always be a matter of matching US policies or of 'doing one better.' Certain pressures, the exchange rate and monetary case, for example, are potentially more consequential for Canada's political sovereignty.

In 1999, approximately one quarter of the companies on the Toronto Stock Exchange (TSE) 100 index, a measure of the largest publicly trade businesses in Canada, reported their financial results in US dollars. The numbers are growing, and a similar trend is apparent among smaller companies listed on the TSE. The reasons for the switch are pretty straightforward. For Canadian companies with significant US operations, US dollars make it easier for US investors and financial institutions to evaluate their performance. Many of these companies are also listed on American exchanges. As of 1999, there were 223 interlisted stocks (that is, TSE stocks that are also traded on the New York, NASDAQ, or American Stock Exchanges). Seventy-five of those companies had half or more of their trading value executed on a US exchange. 'As far as U.S. investors are concerned, these are de facto American stocks ... If the TSE fades into irrelevancy, Canadian companies will have one less reason to stay in Canada.'[16] It is not surprising that many Canadian business people are favourably disposed to a currency union between Canada and the United States.

The introduction of the Euro in January 1999 has given encouragement to some Canadian economists who advocate a North American Monetary Union (NAMU), a view not shared by the Central Bank of Canada. Diminished policy sovereignty and economic flexibility are among the concerns. The economists acknowledge that NAFTA is primarily a trade and economic blueprint, but contend that the higher degree of North American integration makes NAMU a viable and desirable option.

Exchange rate volatility has seen the Canadian dollar go from US$1.04 in 1974, to 71 cents in 1986, 89 cents in 1991, the low 70 cents range for most of the 1990s, 63.5 cents in the summer of 1998, to the recent range of 63.5 - 67 cents. It is argued that a floating exchange rate is counter-productive to that which is needed to support the volume of trade and degree of specialization in the Canadian-US trade and investment relationship. Stable and predictable rates of international exchange and cost calculations can be better achieved through a NAMU. This argument plays into the hands of those who contend that MNCs and the main international financial markets are now setting political agendas.

Quebec: The Sword of Damocles

During the past quarter century, politics and political outcomes in Quebec have done nothing to mitigate the climate of political uncertainty. Quebec's ongoing flirtation with secession has been costly for Canada. Interestingly enough, the Canadian dollar began its significant decline against the US dollar around 1976, the year the Parti Québécois (PQ) was first elected. While a host of factors explain the decline, suffice it to say that the ongoing saga over national unity and Quebec's quest for independence has been a factor.

The 1980 referendum to secede, though won by the 'No' forces, did little to allay concern in the business community regarding Quebec's political stability. Business fears were heightened with the election of the PQ in 1994 and the referendum of 1995, which the no forces won by a squeaker. In 2001 the PQ is still in power and committed to Quebec sovereignty. However, it will call for another referendum only if there is a high probability of winning it. Premier Bernard Landry is marshalling all kinds of economic, political, and cultural arguments, fact and fiction, to advance the cause and timetable of a referendum and ensure a 'Yes' victory. However unlikely this scenario may appear in 2001, it will continue to create an unwelcome uncertainty about Canada's future, which in turn will affect the country's investment and employment climate.

Canada's relatively poor score on 'political stability' - 19th out of 60 countries - weighed heavily on its overall position in the EIU rankings. It is important to recognize that even if Landry calls for a referendum and the no forces win, the victory would not settle the Quebec issue. Previous experience shows that each 'yes' side defeat simply signals that another referendum is in the offing when a sovereignist provincial government is elected. In short, for the foreseeable future, a 'No' victory will not end the debate on Quebec's political status.

The current Quebec sovereignist government supports the Free Trade of the Americas (FTAA) initiative, just as previous sovereignist governments supported the free trade agreements in North America. The logic underlying this position is that NAFTA helps the sovereignists to convince Quebeckers that there would be little economic risk to secession because Quebec would simply request membership in NAFTA, a request to which the US government and the rest of Canada (ROC) would readily agree to. In essence, the Quebec-Canada exit scenario involves an immediate Quebec-North America re-entry scenario, at least from the perspective of the separatists. Charles Doran notes the irony of this reasoning: 'In divisive nationalism today, the separatist community wants autonomy from the state with which it is affiliated but says it will allow transfers of sovereignty to a regional trade area or union.'[17]

What we have here is the following sequence: political disintegration of Canada, followed by Quebec's re-integration into North America's regional economy. In this sequence, the economic costs to Quebec would be minimal. A naive assumption at best. First, there is no assurance of guaranteed or immediate membership; second, the economic and political destabilization that would ensue would make the ROC and Quebec less attractive sites for investment in serving the North America market; and, finally, assuming the Canada-Quebec secession scenario results in an acceptable 'divorce,' there would be a further 'hollowing' of business in Quebec and the ROC in favour of locating, expanding, or relocating in the US.

DIMINISHING RESIDUAL POWERS

Global business processes, such as electronic money, information, and transborder manufacturing chains, cannot be fixed in a single territorial unit over which a state might exercise supreme and exclusive jurisdiction. Thomas Friedman notes that the globalization system 'has one overarching feature - integration. The world has become an increasingly interwoven place, and today, whether you are a company or a country, your threats and opportunities increasingly derive from who you are connected to.'[18] Nowhere is this more apparent than in the relationship between Canada and the United States.

Canada implicitly accepted constraints on its actions when it ratified the 1989 FTA. While the same holds true for the United States, the asymmetrical relationship between the two demands that Canadian policy-makers be far more sensitive to US policy initiatives and their potential impact on the Canadian economy and business. No such situation faces US policy-makers, in spite of Canada's relative importance to the United States.

The power of the Canadian nation state to advance the interests and help enhance the competitiveness of Canadian corporations may be waning at a time when it is most needed. Canada's sovereignty as a nation state, defined by its capacity for autonomous choice, has diminished in recent years. While 'legal sovereignty' remains intact, that is, the right of the state to exercise exclusive jurisdiction within a territory, Canada's political sovereignty does not. Nonetheless, political leaders continue to speak to the need to defend Canada's political sovereignty.

There is some concern that the internationalization, or more specifically the continentalization, of economic activity does not favour a vigorous Canadian government-business partnership that is driven to promote the collective interests of Canada. Successful Canadian MNCs are becoming more actively involved in US associations, and company resources assigned to such participation have increased commensurately. When participation of a senior MNC executive is called for, such executives may be assigned responsibility for representing the interest of their companies in both Canadian and US associations. The 'Canadian' executive may be based in either the company head office or its US subsidiary office.

To date, most Canadian controlled companies in the US have maintained a low profile within and outside the association policy arena because even the largest Canadian MNC is relatively small compared to its major US rivals. In the coming years, some Canadian MNCs will likely view their US industry association membership as more important than their Canadian association membership. US associations, whose board membership is largely made up of CEOs, are seen as critical industry policy-making forums. Thus they attract the membership and participation of CEOs of Canadian MNCs. Industry networking is of considerable benefit, particularly for Canadian MNCs in search of potential US acquisitions or partners.

The flip side of the coin has to do with Canadian subsidiaries of US MNCs and their involvement in Canadian associations. Many of these subsidiaries are among the largest Canadian based companies, typically in oligopolistic industries. Their numbers frequently dominate the commanding heights of the industry, as in the automotive, chemical, information technology, pharmaceutical, and petroleum sectors.

As noted, the Canadian head-offices of these subsidiaries have been hollowed out in recent years. Nominal 'Canadian' CEOs of such companies no longer possess the clout or status of their pre-free trade era predecessors. Such 'US dominated Canadian industry associations' play a less active role in the Canadian policy arena. Direction and instruction on significant issues are frequently obtained from the senior executives of North American operations, based, for the most part, in the United States. When such 'Canadian' industry associations represent key sectors of the Canadian economy, the government-business relationship is more difficult for the Canadian government to cultivate and manage. Access to key senior decision-makers is harder to come by, and an understanding of and sensitivity to Canadian interests and concerns in the upper echelons of the US head-office is frequently lacking.

Canadian associations dominated by such firms have become toothless public policy participants. Money speaks, and, because a major portion of association dues comes from such members, executives in the US headquarters largely condition the agenda. Furthermore, US approval and support are preconditions for continued membership in the Canadian association. Not surprisingly, many of these Canadian associations are in close contact and liaise actively with their US counterparts on issues of common concern.

As corporate decision-making is changing in Canada/US so is the association's role. Company members of Canadian associations, both Canadian and foreign controlled, actively encourage stronger and more co-ordinated links with their US counterparts. In fact, the drive in industries that are international in character is for greater and stronger global association co-operation.

These facts are not presented as non-desirable outcomes but rather as developments that further erode the ability of Canadian political leaders to elicit Canadian business responses that may require non-economic considerations. It is not merely Canadian corporate citizenship that is gradually eroded - it is also management's Canadian national sensitivities. In essence, the Canadian corporate decision-making platform is being marginalized by both Canadian MNCs and US MNCs with Canadian subsidiaries.

The political clout and influence exercised by a nation state draws on many resources and stakeholders - business and its decision-makers being one of the more important. This has been and will continue to be a *sine qua non* in today's global reality. In a democracy, the more symbiotic the relationship between business and a nation's leaders, the more able a government is to articulate and promote the best economic interests of its citizenry through a democratic political process. Today's reality makes such a relationship between government and business in Canada harder to come by because of Canadian business preoccupation with 'US issues and interests.' Canadian free trade critics were right to assume that the gravitational pull from the south would undermine the east-west forces, many of which were artificially created by successive national governments since Confederation.

While national origins of a MNC may have a significant impact on the behaviour of the corporation, Canadian MNCs can ill-afford the luxury of 'firmly' anchoring their headquarters in Canada for such reasons as the nationality of the founders and the initial focus on the home market. Inertial historical forces play a lesser role in Canadian corporate decision-making with respect to headquarters location than is the case with US MNCs. Reappraisal of the headquarter's role and location is a greater issue for Canadian firms as they gradually evolve into global players, heavily dependent on the US market for competitive success and profitability.

When the policy and regulatory positions of the two governments differ, the US is in a much stronger 'political' position to affect the business behaviour of Canadian subsidiaries of US MNCs and US subsidiaries of Canadian MNCs. Although the degree of interdependence between the two economies is exceptionally high, it is also the most asymmetrical among industrialized nations in all spheres of activity: economic, political, and cultural.

In terms of evolving relationships between business and government this difference is significant. Canada's claim on US attention is minute compared to the US claim on Canada's attention by government, business, and other interest groups, particularly the media. The asymmetrical relationship between the two economies makes it so. Canada is a one-country issue - the United States - and the recent working papers released by the BCNI are no exception to this observation.

Canada's minister of foreign affairs, John Manley, commented on the potential impact of the new Bush administration in the US on Canada: 'Every change of administration in the United States represents a challenge for the Canadian government. The importance of this relationship - which surpasses common concepts of "international" or "domestic" - simply cannot be overstated on any issue, in any sector or for any region in our country.'[19]

The heavy economic dependence on and interrelationship with the US demand that when Canadian policy-makers develop initiatives in areas such as taxation, competition, technology, environment, exporting, and so on, they test the potential efficacy of the policy in light of this interdependence. To do otherwise is to invite potential consequences that may be difficult to absorb.

The more entrenched the Canadian MNC is in the US, the fewer the levers of influence the Canadian government possesses to influence such firms to favour expanding in the home country and/or retaining critical functions and activities such as research and development. This is not a matter of sharing concurrent jurisdiction; rather it is a situation that finds Canada competing with the US environment to curry favour with Canadian-owned firms.

CHOOSING THE PATH

Extensive interviews with Canadian business and industry association executives on the question of the 'US business pull' generally confirm the findings of the BCNI background papers, the Public Policy forum survey observations, and news media coverage of corporate head office transfers to the United States. No hard data is currently available to either confirm or refute the magnitude of the problem. However, this does not make the issue any less compelling for the Canadian public.

There can be no denying that Canada benefits from the operating presence of corporate head-offices. Jean Monty, CEO of BCE, one of Canada's largest firms, observed that the operating presence of headquarter organizations is beneficial to Canada because 'they attract research, they support universities, they support community organizations and they drive economic progress.'[20] High-paying managerial, professional, and technical jobs are associated with the location of head offices and such corporate activities as research and development. It is axiomatic that Canadian companies must expand internationally if they are to be competitive. It is only natural that the first place they look to is the US, the logical springboard for expanding operations globally. The concern is that the US springboard may rapidly become the Canadian company's head-office platform.

MNCs, when making investment and production decisions, exercise their power over what is to be produced, where, by whom, and on what terms and conditions. The corporate power structure transcends the boundaries of nation states that assign the territorial limits of the authority of one nation state from that of another. Setting a national policy agenda, including solutions to internal social and political problems, has been made more difficult. Political leaders, generally, are now aware that the role of the state is to work more on behalf of common economic interests associated with regionalism and globalization and less exclusively with national economic interests. Certain business leaders, who have expressed concern about the hollowing of Canadian MNCs, are calling on the Canadian government for greater harmonization of policies with the US in a broad range of areas: taxation and exchange rates, traditional border issues, labour mobility, regulation and competition policy, administrative trade policy (countervail and subsidy), environmental and resource issues, and intellectual property rights. These pressures call for greater integration with the US, which would go beyond the free trade agreement to something more akin to a common market but without the benefit of a formal agreement.

Business pressures for harmonization are not without critics and sceptics. The general thrust of the argument is that if Canada and the US were to move in the direction of policy harmonization, it is highly unlikely that the US would alter its policies to any significant degree to accommodate Canadian interests. The more likely scenario is that Canada would replicate US policies. The challenge facing Canada has been made that much more complex.

Governments today actively compete with each other by pursuing policies they believe will earn them market confidence and attract trade and capital flows. The US model of a market driven economy is the one that many industrialized economies consider emulating. Soon after the 'New Labor' government was re-elected in Britain, the chancellor of the exchequer wrote an op ed article in the *Wall Street Journal* extolling the virtues of the US free enterprise system and committed his political party to policies that will promote a broader and stronger entrepreneurial culture, aided and abetted by a very favourable tax regime. The primary goal is 'to make Britain the best place to locate.'[21]

Other European countries that still retain the core of a strong welfare state - France, Germany, and Sweden, for instance - are experiencing similar pressures. The situation in Canada is even more politically sensitive because of its proximity to, and interdependence and ongoing comparisons with, the United States. According to leaked information and committee reports, two opposing schools of thought, if not factions, within the ruling Liberal party are currently debating the policy path that Canada should pursue.[22]

One faction would like to see the government reduce business taxes to 'reward excellence,' that is, to foster a business climate that rewards risk-taking and entrepreneurship. This is the view of the minister of finance, Paul Martin. The opposing faction is concerned about the excessive emphasis on 'rewarding excellence' at the expense of equity. This is the view of the prime minister, who refuses to endorse further tax cuts and who is committed to making 'sure that every person in every part of Canada benefits from the potential and the wealth that belongs to the people of Canada.'[23] Equality of result is favoured over equality of opportunity, and, although he recognizes that the Canadian economy must be market driven, the prime minister is reluctant to embrace the principles of a US-style market-driven society.

Canada's political leaders are facing choices that entail trade-offs. Not unlike Britain, Canada wants to promote a culture of entrepreneurship and innovation. But to do so, it will require a tax regime that promotes, favours, and rewards corporate and personal success. Policy initiatives and actions taken today must be conditioned by how attractive Canada can be made vis-à-vis its major competitor in North America - the United States. But in doing so, Canada becomes more of a 'market driven society' and, as its economy grows, its political space shrinks. It 'narrows the political and economic choices of those in power to relatively tight parameters.'[24]

Copying the strategies of one's rivals in business is not a sure formula for success. The challenges of strategy are even more complex in the domain of policy-making. For a mid-sized country it is imperative to identify and build on strategic differences that will produce significant comparative advantages. By substituting the term 'competitive advantage' for the traditional emphasis on 'comparative advantage,' Michael Porter demonstrated through his many country studies that deliberate corporate and governmental decisions and policy choices can influence and promote the international competitiveness of a country's particular industry sector.[25] The essential point is that governments can perform a critical, if not decisive, role in promoting the international competitiveness of their national firms.

Canada has a history of targeting firms as potential national champions deserving government support in the form of protectionism and subsidies. Canada is not alone in providing support for national firms, particularly in strategically important industries where large economies of scale and/or dynamic gains from 'learning-by-doing' are important. These industries are usually oligopolistic in character, and a company's home government can play an important role in oligopolistic competition. Strategic trade theory suggests that the home government may protect a domestic firm against foreign competitors, or it could provide subsidies to lower a company's costs and increase its competitive advantage in domestic and foreign markets. For instance, the US government has helped Boeing with generous defence contracts, and the Canadian government has helped Bombardier with subsidies.

A sectoral approach predicated on building vibrant, internationally competitive industry clusters is eminently realistic. This recommendation is neither new nor without public support in Canada, but it has not been pursued with any great vision or vigour. Such an approach presupposes a public-private partnership, particularly between government and business, because of its potential for significant impact on government economic programmes in areas such as employment, investment, technology, and trade.

Public-Private Partnership

Governments have seen their powers considerably reduced and their policy role significantly changed. They are much less yesteryear's interventionist, regulator, picker of winners, and distributor of largess.

Today their role has to be one of further enhancing and facilitating the forces of market competition and business development, more reliant on moral suasion and positive inducements and less on negative sanctions. As stated earlier, business enjoys a privileged position in public policy-making. The government-business partnership in Canada needs to be further strengthened.

CEOs of some of the largest companies in Canada are publicly calling for greater and stronger partnership links among industry, government, and academia. Similar views are echoed in briefs and reports from industry associations, government, and think tanks. Business and industry association leaders in particular are calling on government to play a more proactive role in promoting partnerships that will help improve Canada's productivity, competitiveness, and standard of living.

At a time when the Canadian government's scope for policy manœuvrability is relatively narrow, policy-makers have increased expectations about the potential contribution of Canadian MNCs and the subsidiaries of foreign MNCs. The geographic presence of corporate CEOs and senior executives generally makes it easier to organize government-business networks that can be used to arrive at consensual goals.

Innovative organizational partnership arrangements will have to be fashioned by the Canadian government to help facilitate government-business partnerships. Establishing 'industry advisory councils,' whose members would include CEOs or the most senior operating executives, would go some distance to bringing business leaders into closer relations with the country's political and bureaucratic élites. Multi-stakeholder councils, made up of government, business, labour, academia, environmentalists, consumer groups and other NGOs, although politically admirable, is not the way to proceed in this context. Business experience with and perception of multi-stakeholder roundtables or forums has been generally disappointing; they view them as largely reactive and lacking focus.

The government must not regard the government-business partnership strategy as a public relations exercise. To do so would lessen the probability that CEOs would agree to serve on the industry advisory councils. The government is faced with having to produce a proactive policy agenda that business will actively embrace. The policy programme must be aimed at making Canada a more attractive location for head-offices and business investment.

The industry advisory council vehicle would be no less important for the appointment of executives located in US corporate offices but responsible for Canadian company operations - in fact, more so. The government should try to co-opt these executives onto their advisory councils and joint partnership bodies. Geographic residency and nationality are less important than management authority and responsibility. It is not uncommon for Canadian political leaders and government officials to visit senior US corporate executives in the United States, for example, to induce them to invest in Canada, to expand, or do something new in the case of firms with existing subsidiaries in Canada. The co-option proposal is a much broader transnational relationship arrangement, more in keeping with the current characteristics of the Canadian corporate landscape. The Canadian corporate situation is quite different from that encountered in other countries where home-office MNCs' senior executives are still distinctly national, and the parent country government benefits from common understandings derived from a similar cultural background, education, and participation in a national culture.

At the dawn of the 21st century it may not be politically correct to talk about the privileged position of business in public policy deliberations, particularly in a democracy such as Canada. However, reality belies this view in light of the intensive location site competition taking place, particularly among industrialized countries.

Canada is at a critical stage of economic and political transition. The government must decide on which path to pursue. Business in Canada will continue to play an important part in determining the outcome of whichever policy path the government chooses. The challenge facing Canada is how to strengthen and grow the Canadian corporate platform inhabited by Canadian and foreign-controlled corporations so that it does not merely become a plank in the US corporate platform.

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