Doors Closed and Opportunities Missed: Lessons from Failed Automotive Investment Attraction in Canada in the 1980s

GREIGORY D. MORDUE
Department of Economics, McMaster University, Hamilton, Ontario

Au cours des années 1980, le paysage de l'industrie automobile canadienne s'est transformé, alors que cinq nouveaux manufacturiers venant de l'extérieur de l'Amérique du Nord ont fait des investissements importants au pays. Le secteur, jusqu'alors dominé par des intérêts américains, s'est ainsi beaucoup diversifié sur le plan de la propriété des entreprises. Comme le Canada a alors réussi à attirer des investissements étrangers, on pourrait penser que ceux qui ont participé à ce processus avaient un plan cohérent, et que les réussites se sont succédé ; la réalité, toutefois, est qu'il y a également eu des lacunes et des échecs. Grâce à des archives et à des sources secondaires, cet article présente le développement économique de l'industrie automobile canadienne durant cette période. Les décideurs politiques peuvent en tirer d'importantes leçons : il faut s'assurer de bien arrimer les objectifs et les politiques ; des personnes ayant beaucoup de pouvoir peuvent agir sans tenir compte des mécanismes de gouvernance, même dans de grandes entreprises ; et des facteurs exogènes peuvent entraver la réalisation des plans même les mieux conçus.

Mots clés : industrie automobile, Canada, échec, promotion de l'investissement, investissement étranger direct

During the 1980s, Canada's automotive manufacturing assembly landscape changed when five new manufacturers from outside of North America made large-scale investments. The industry shifted from one focused on US-owned corporations to one with a much more international orientation. Because of the success Canada enjoyed in attracting foreign automotive investment, one might conclude that those engaged in the process did so with a coherent plan and that the period was marked by one success after another. The reality, however, is that several misses also occurred. Layering archival sources and interviews with secondary sources, this article contributes to the history of the economic development of Canada's automotive industry. Through this, important lessons for policy-makers are offered: The process of goal and policy congruence is demonstrated; one sees how dominant personalities can override governance mechanisms, even in large corporations; and one observes the capacity of exogenous factors to affect the best-laid plans.

Keywords: automotive, Canada, failure, investment attraction, foreign direct investment

Introduction

During the 1980s, the Canadian automotive manufacturing industry was transformed. It shifted from one in which four US-owned companies produced 98 percent of the vehicles built in Canada to one with a more internationalist outlook. During the decade, five new companies built new final assembly operations in Canada. Indeed, had these companies not entered Canada, the industry that exists today would be dramatically different: smaller, less international in scope, and less capable of supporting the existing cluster of automotive parts makers.

The success Canada enjoyed in winning automotive assembly foreign direct investment (FDI) in the 1980s might cause one to assume that the process was guided

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by policy-makers with a disciplined strategy, clear targets, tight messaging, and well-honed tools. The success might also cause one to assume that those engaged in the process progressed from one accomplishment to another. The reality, however, is that neither occurred. The process and the tools emerged mainly from conditions to which policy-makers and other actors responded in the moment. Policy-makers demonstrated flexibility as targets presented themselves and as the need for new or adjusted tools became evident. Also, even though there can be no question that significant success ensued, closer study also reveals that dead ends were met and disappointment occurred.

Through a combination of archival analysis and interviews with key actors, this article captures the dead ends and disappointments. Such cases provide valuable context and insight because they better speak to the challenges and hurdles that actors confronted. Their study also provides the basis for improved understanding about the process of setting policy goals, the motivations of stakeholders, how major decisions are sometimes made, and the capacity of exogenous factors to affect the best-laid plans.

Literature Review

In Canada, it is possible that no other collection of geographically proximate economic activity has generated as much investigation as the cluster of automotive manufacturing that exists in the southern parts of Ontario and Quebec. There are, however, segments of the industry and periods within its development that have escaped rigorous scrutiny. The period that this article explores, the 1980s, is one.

The Canada–US Automotive Products Trade Agreement of 1965 (known in Canada as the Auto Pact) is particularly important. The Auto Pact and the structural adjustments in the Canadian industry that it engendered created the conditions for the push for new sources of inward automotive FDI during the 1980s. The process leading to the Auto Pact was launched five years before its implementation when the Government of Canada commissioned Vincent Bladen of the University of Toronto to oversee a Royal Commission on the Canadian automotive industry (Canada, Queen's Printer and Controller of Stationery 1961). His report was one of several subsequent government reports that helped guide policy-makers (see Canada, Minister of Supply and Services 1978; MacDonald 1980; Lavelle and White 1983).

The Auto Pact is the subject of a large body of academic research. This research includes analyses of the conditions leading to its ratification (Anastakis 2005; Johnson 1964; Mordue 2010; Wonnacott 1965; Wonnacott and Wonnacott 1967), economic analyses of its effect on the structure and development of the Canadian automotive industry (Beigie 1970; Emerson 1975; Flynn 1979; Fuss and Waverman 1985, 1986a, 1986b; Wilton 1976), and qualitative political economic analyses of the Auto Pact's legacy (Anastakis 2013; Jacobs 2016; Keeley 1983; Mordue 2007, 2010). Canadian researchers dominate its study. This is the result of the outsized impact the automotive industry had on the Canadian economy and a perception among Canadians that they gained disproportionately from the Auto Pact vis-à-vis the United States. By contrast, the US perspective comes primarily from government sources. These sources include legislatively mandated reports (US Congress 1968, 1972, 1974, 1979), a study by the US International Trade Commission (1976), and contributors affiliated with the Lyndon B. Johnson School of Public Affairs at the University of Texas, whose figurehead was the US signatory (see Anderson 1983; US–Canada Automotive Agreement Policy Research Project 1985).

Studies of the automotive industry and trade in automotive products were also prominent during the negotiation of the Canada–US Free Trade Agreement and the North American Free Trade Agreement (NAFTA). Wonnacott (1987, 1988, 1996) calls for the elimination of Canada's duty remission program and a stepped approach to free trade within the Americas. Hufbauer and Schott (1992) profile the automotive industry in their examination of a broader North American free trade framework, as does Michael Hart (1998). Robert (2000) assesses the influence of four industries, including the automotive industry, on NAFTA's development. Kumar and Holmes (1998) and Holmes (2004) describe how NAFTA could be expected to affect the automotive industry in Canada, and Irish's (2004) compilation brings together a varied collection of contributors to document the Auto Pact and how the World Trade Organization ruling striking the Auto Pact down would affect different communities.

What these contributions do not do is chart the transformation that occurred in the late 1970s and 1980s. That process has received scant attention, which is surprising because the 1980s brought dramatic and lasting alterations. As Table 1 describes, in 1983 almost 100 percent of the 1.5 million vehicles built in Canada were made by four US-owned companies. By 2015, Canadian vehicle production had increased to almost 2.3 million, more than 1.6 million of which can be traced to investments made by offshore producers in the 1980s.

Over the years, ownership of several facilities built in the 1980s changed, and in two cases, title moved from non–North American hands to Detroit-headquartered automakers. However, had the five new non–North American entrants not entered Canada in the 1980s, the industry that exists today would be dramatically different. Most notably, it would likely be much smaller. For example, the products that Fiat Chrysler builds today

Table 1: Effect of 1980s New Entrant Automotive Investments in Canada

	1983		2003		2015	
Original Equipment Manufacturer	Production	Share (%)	Production	Share (%)	Production	Share (%)
1983 participants						
Chrysler			306,555		260,777	
General Motors			939,872		203,183	
Ford			462,967		200,689	
Volvo			0		0	
American Motors			0		0	
Subtotal	1,502,325	100	1,709,394	67.8	664,649	29.3
New entrants in the 1980s						
CAMI (now GM)	0	0	50,971		374,450	
AMC-Renault (now Fiat Chrysler)	0	0	140,349		254,192	
Hyundai	0	0	0		0	
Honda	0	0	392,230		384,982	
Toyota	0	0	227,543		590,723	
Subtotal	0	0	811,093	32.2	1,604,347	70.7
Total	1,502,325	100	2,520,487	100	2,268,996	100

Sources: DesRosiers (1994, 2004, 2016)

in its Bramalea, Ontario, plant—originally constructed when Renault was American Motors' controlling shareholder—would likely be produced outside of Canada had that plant not been built. Similarly, the General Motors (GM) product assigned to the original Canadian Automotive Manufacturing Inc. (CAMI) facility in Ingersoll, Ontario, built as a joint venture with Suzuki in 1986 and which GM now exclusively controls, could also be made outside of Canada. Those facilities exist today because they were available and had open capacity at critical junctures. As Table 1 illustrates, had the new entrants not come to Canada in the 1980s, Canadian automobile production could be less than 700,000 units annually, barely one-third of current production. Would production of 700,000 spread over three automakers be sufficient to provide the economies of scale necessary to sustain mandates over the longer term? What would have happened to the parts industry? It is for these reasons that this article addresses the gap in literature related to the entry of the new manufacturers in the 1980s.

By focusing on this period, this article closes the gap in knowledge of the development of Canada's automotive industry. But rather than document the five new entrants listed in Table 1, it focuses on the series of near misses and failures that occurred—cases that are less well understood. In addition to closing a gap in the understanding of the business history of Canada's automotive industry, the analysis herein offers lessons about policy-making with contemporary applications.

Methodology

There are many reasons why business historians avoid studying failure. First, with the passage of time, the tendency is to focus on what is—or was—tangible or real. A factory that never existed does not normally stimulate research about why it was never built. Second, many of the unfulfilled investments that were considered during the period under study generated little attention at the time. Investors then, as now, are more comfortable announcing tangible plans than vague prospects. Third, investments that were considered but rejected can be considered failures, and actors are reluctant to discuss those. Fourth, with the passage of time, awareness of unanswered propositions becomes less evident. Finally, on a practical level, the fact that these investments were never made means that access to informants is inherently more difficult.

This research tackles these challenges through the interplay of two primary sources: government archives and interviews with key actors. The process was one in which knowledge accreted in an iterative manner, from one source to another and back again. For example, a potential FDI target might be mentioned in one set of departmental archives. Subsequent research could reveal the involvement of another department. Later, the participation of a different level of government might be identified. By engaging with archival sources, the identity of key actors was revealed. These actors included well-known politicians and senior officials as well as less visible government officers with day-to-day operational

Table 2: Characteristics of Interview Participants

Subject	Relevant Role(s) During Period Under Study
Herb Gray	• Member of Parliament of Canada, Windsor, Ontario, area (1962–2002). • Minister of Consumer and Commercial Affairs (1972–74) • Minister of Industry, Trade and Commerce (1980–82) • Minister of Regional Economic Expansion (1982) • President of the Treasury Board (1982–84)
Ed Lumley	• Federal Member of Parliament of Canada, Stormont-Dundas (1974–84) • Parliamentary secretary to Minister of Regional Economic Expansion (1976–77) • Parliamentary assistant to Minister of Finance (1977–78) • Minister of State for Trade (1980–82) • Minister of Regional Economic Expansion (1982–83) • Minister of Industry, Trade and Commerce (1982–83) • Minister of Regional Industrial Expansion (1983–84)
Patrick J. Lavelle	• President, Automotive Parts Manufacturers' Association (1974–86) • Agent General for Ontario in France (1980–81) • Deputy Minister, Ontario Ministry of Industry, Trade and Technology (1986–88)
Michael Dube	• Senior policy advisor, Industry Policy Branch (and its successor organizations), Ministry of Industry, Trade and Technology and its successor organizations, Government of Ontario (1970s–current)
Larry Duffield	• Manufacturing program manager for Automotive, Canadian Embassy in Japan (1981–87)
Erech Morrison	• Joined Canada's Department of Industry in its Automotive Branch (1978) as senior sector development officer; subsequently held a variety of positions within branch

Sources: Mordue (2004a, 2004b, 2004c, 2004d, 2005, 2006).

responsibility. It is possible that the senior officials and politicians would have been identified without the archives. However, it is doubtful that the more junior officials would have been considered even though their perspective and knowledge were essential. For this article, six direct participants were located and interviewed (Table 2). Occasionally, the interviews revealed new information, causing a return to the archives. Through this interplay, data were built and gaps were closed. Meanwhile, primary sources were supplemented and contextualized via secondary sources, including media accounts, books, journal articles, and other reports. Eventually, a process of triangulation ensued, revealing the essence of the story.

One of the challenges of constructing oral histories is the reluctance of interviewers to confront challenging or uncomfortable issues (Ritchie 2003). Moreover, just as interviewers might occasionally avoid difficult themes, interview subjects might also avoid the truth. Another problem is that both interviewer and subject may display bias (Trapp-Fallon 2003). Interviewees may also, with the passage of time, lose capacity to recall details. Despite such challenges, the researcher may still put the responses into the proper context by seeking consistency and consensus between sources (Mitchell 1996; Topping et al. 2006). This recognizes that "understanding an oral history is more of an interpretive event, than a fact-finding mission" (Topping et al. 2006, 156). For example, Minchin's (2006) and Bruno's (1999) triangulation of semistructured interviews in combination with archival sources and media accounts to interpret labour issues in mid-twentieth-century America represents an approach that parallels the one herein.

Potholes on the Road to Success

The 1980s represent a remarkable period in the history of the Canadian automotive industry. However, before any success in terms of FDI attraction occurred, Canada experienced a series of misplayed opportunities, setbacks, and rejections. The impetus to chart a new strategy for the Canadian automotive manufacturing industry emerged in the late 1970s, just over a decade after the implementation of the Auto Pact. The first few years after the Auto Pact's ratification brought expansion and prosperity to the Canadian automotive industry. Production, employment, and value added rose. However, by the time the Auto Pact approached its 15th anniversary, fissures were evident. Once the initial investments had been made to raise assembly capacity in Canada, investment levels tailed off (Mordue 2007). Canada settled into a role as the North American base for labour-intensive automotive manufacturing functions. The Canadian industry also became more narrowly focused. Certain functions that before 1965 were performed in Canada were consolidated in the parent companies' headquarters in Michigan. Upstream automotive functions such as product development or research and development virtually disappeared from Canada. More stress was added in the early 1980s when sales deteriorated, production dropped,

and jobs disappeared. On top of that, offshore imports gained an increasing share of the market.

As the process unfolded, Canada's automotive actors started to consider new sources of investment and growth. The problem, however, was that they were unconvinced of their attractiveness to potential new entrants. Pat Lavelle, the head of the Canadian Automotive Parts Manufacturers' Association, lamented in 1983, "It is unlikely that additional assembly capacity will be added in the foreseeable future. We will have difficulty holding on to what we have" (Government of Ontario, Ministry of Industry and Trade 1983a). In an interview, he explained,

> We had spent the time from 1975 through all that period in the late '70s really traipsing all over the world as domestic parts makers trying to encourage foreign vehicle producers to actually buy Canadian parts. We were not so much interested in encouraging them to invest in Canada. (Mordue 2004d)

Limited success had ensued, and they were not prepared to set their sights very high. Ontario official Mike Dube recalls the prevailing theory:

> We recognized … no car company was going to put their first plant in Canada. There's no senator on your side up here. There's no congressman. There's no president who can point to it. You can't say I'm back in the USA. Whether the car comes from Canada or Japan, it doesn't make much difference from the Washington Beltway point of view. So we always knew that we just had to sit there on the sidelines through round one of the investments in the very early '80s. (Mordue 2004c)

Early Overtures

Despite the pessimism, at several points automakers were, in fact, considering investing in Canada. For example, lost in the skepticism surrounding a potential assembly plant in Canada were the tentative inquiries made by Honda as early as May 1979. The manager of product compliance for Honda Canada had written to the Motor Vehicles Division of the Department of Industry, requesting copies of the Auto Pact: "One copy will be forwarded to our parent company, the Honda Motor Co. Ltd. Japan, and the other retained for our reference. The agreement is required as resource material for the study of automobile manufacturing in North America" (Canada, Department of Industry, Trade and Commerce 1979).

Incredibly, no other reference is made to Honda, the biggest selling Japanese brand in Canada at the time. Any optimism around assembly investment in the late 1970s or the first few years of the 1980s was limited to lower profile investors. These investors would have been similar in scale and scope to Volvo's operations in Nova Scotia from 1963 through 1987, to Toyota's and Isuzu's in Nova Scotia from 1967 through 1975, and to Renault's in Quebec from 1965 through 1973 (Jacobs 2016).

Fiat was the first smaller scale prospect to emerge. The Fiat plan was for an investment in Halifax, Nova Scotia, and it first materialized in September 1977 when an economic development officer from Nova Scotia contacted the federal Department of Industry, Trade and Commerce to explore the production to sales ratio and Canadian Value Added (CVA) requirements of the Auto Pact (Canada, Department of Industry, Trade and Commerce 1977). The records reveal that extensive discussions ensued. By early 1978, Fiat was demonstrating considerable interest in Canada's expanded duty remission program (Canada, Department of Industry, Trade and Commerce 1978), a scheme the Government of Canada was implementing to encourage more parts purchases from Canadian operations. Interest ultimately dissolved, likely because Fiat's sales in North America evaporated. The company's exports of passenger cars to the United States declined rapidly from 55,000 in 1977 (Motor Vehicle Manufacturers Association of the United States 1982, 71) to less than 10,000 in 1981 (Motor Vehicle Manufacturers Association of the United States 1986, 30), rendering a major capital investment in North America uneconomic.

Canadian policy-makers also mused about the potential of the Soviet builder Lada investing in a kit assembly operation. At one point, policy-makers even considered the threat of import quotas as a tool to force a decision (Government of Ontario, Ministry of Industry and Tourism 1980b). A Lada operation in Canada, it was felt, was a possibility because the product was excluded from the United States (Government of Ontario, Ministry of Industry and Tourism 1980a).

In addition to Fiat and Lada, two British-based firms generated interest. Ontario government records show that in 1983, British Leyland, with brands including Mini, Triumph, Jaguar, and Rover, expressed interest in investing in Canadian assembly operations, a prospect that seems speculative rather than well planned. A joint paper by the Ontario Ministry of Treasury and Economics and the Ministry of Industry and Trade concluded that the CVA requirements were too high and that a kit assembly operation would not allow British Leyland to reach the thresholds necessary to avoid tariffs (Government of Ontario, Ministry of Industry and Trade 1983b). Moreover, British Leyland sales in the United States, where the majority of Canadian-produced vehicles would be destined, were too low to make such an operation viable. As with Fiat, British Leyland's sales in the United States in the mid to late 1970s proved to be illusory. After its US sales peaked at 48,000 in 1978, sales trended downward and by 1983 were just 16,000 (*Ward's 1992 Automotive Yearbook* 1992). By then, the company had recorded losses for four consecutive years.[1] It could only have rendered investment in Canada a diversion from the difficulties besetting British Leyland at home.

The United Kingdom's Lotus sports car maker provides a slightly different example of the type of investor that was considering Canadian production in the 1980s. Here, parallels are possible with the 1970s foray of Malcom Bricklin, captured by Anastakis (2014). Between 1974 and 1977, 3,000 Bricklin sports cars were produced in New Brunswick before the company declared bankruptcy. In the case of Lotus, the company was considering international expansion in the mid-1980s. Headquartered in Norfolk, England, Lotus hoped to increase production from 1,000 units annually to 3,000 through the launch of a new sports car, the X-100 (Griffiths 1985). Norfolk, though, was designated a "non-development area" by the UK government, and as such Lotus could not gain government assistance to support expansion (Simpson 1986). The search for a new manufacturing location spread far and wide. Sites were considered in Holland ("Lotus Will Not Quit Britain" 1986), Ireland (Hetherington 1986b), Austria (Griffiths 1986a), and the United States, where the majority of the vehicles would be sold (Hetherington 1986a). Local union leaders also tried to convince the company to take over a Vauxhall facility operating under capacity in Bedfordshire (Griffiths 1986b). Michael Kimberley, the managing director of Lotus, suggested Canada as a potential location because of its proximity to the United States (Griffiths 1986a). However, despite the apparently exhaustive search for a new location and the refusal of the UK government to extend financial support to an investment in Norfolk, the company decided to expand its existing facility (Griffiths 1987). Media reports aside, it is doubtful Canada was a real contender. Canada may have been raised as a potential location as a bargaining tactic in negotiations with the British government.

Chrysler Chronicles

Throughout the 1980s, the Government of Canada engaged in a series of discussions with the Chrysler Corporation. The case of Chrysler is instructive, and it offers insight into the governance of decision making in large corporations. It also suggests that policy-makers should exercise caution when considering the motivations and messages of those with whom they are dealing.

The first Chrysler case involved Perkins Diesel and Chrysler in a potential joint venture in Windsor, Ontario. The Chrysler–Perkins diesel engine project emerged months after a series of government loan guarantees extended by governments in Canada and the United States staved off Chrysler's bankruptcy. Perkins' main shareholder, one-time Canadian industrial icon Massey Ferguson, had likewise averted collapse by securing loan guarantees from the governments of Canada and Ontario. Negotiations commenced in April 1981, with senior company executives and senior officials from the governments of Ontario and Canada meeting in Ottawa (Government of Ontario, Ministry of Industry and Tourism 1981b). The two companies planned to form a joint venture to produce diesel engines for passenger cars in a dormant engine plant owned by Chrysler in Windsor, Ontario, that had closed in 1980. Chrysler would be the primary customer, but it was anticipated that GM, Ford, and American Motors might also become customers (Government of Ontario, Ministry of Industry and Tourism 1981a). As discussions progressed, government officials became convinced that diesel engines would become a mainstay of the North American automotive industry. By 1985, for example, the Ontario government estimated that between 9 and 25 percent of the US car market would be diesel powered (Government of Ontario, Ministry of Industry and Tourism 1981b) even though diesel had just 4.3 percent of the passenger car market in 1980 (*Ward's 1992 Automotive Yearbook* 1992).

Chrysler–Perkins pressed for $160 million to support the project, $120 million of which was to come from Canadian governments, divided equally between grants and loans. The demand was derided by Ontario's deputy treasurer in a memo to his counterpart at the Ministry of Industry and Tourism, Red Wilson: "This is yet another proposal for massive government assistance before we have any assurance as to the viability of the partners' operations in their existing areas" (Government of Ontario, Ministry of Industry and Tourism 1981d). Eventually, despite the misgivings, governments offered a package worth $105 million, including $22 million in loans and a further $83 million in loan guarantees (Government of Ontario, Ministry of Treasury and Economics 1982). No grant funding was offered.

Chrysler's conduct in the aftermath of the negotiations followed a pattern that was typical of its approach during the 1980s. On 23 December 1982, the company unilaterally abandoned its deal with Perkins, announcing that, should the program ever be resuscitated, it would produce six-cylinder diesel engines at its Trenton, Michigan, facility instead ("Chrysler Delays Plans to Build Diesel Engines" 1982). The announcement came as a surprise to its partner, Perkins. In a press release the day before regarding a joint venture deal to produce diesel engines with British Leyland, Perkins indicated that the joint venture with Chrysler was moving forward as scheduled (Government of Ontario, Ministry of Treasury and Economics 1982). Meanwhile, *Automotive News* reported that tooling companies with contracts to supply equipment to Chrysler–Perkins' Windsor facility had no prior knowledge of Chrysler's change of plans (Government of Ontario, Ministry of Treasury and Economics 1982).

Chrysler's withdrawal prompted a crisis. A memo to Ontario Assistant Deputy Minister of Treasury and Economics Bryan Davies reveals that federal Department of Industry, Trade and Commerce officials felt aggrieved

for several reasons, not the least of which was the lack of prior notice (Government of Ontario, Ministry of Treasury and Economics 1982). After the announcement, the federal government placed on hold an Order-in-Council forsaking the duty owed by Chrysler on its 1980 and 1981 Auto Pact shortfalls, an amount estimated at $245 million (Daw and Hepburn 1982).[2] Several reasons are offered for Chrysler's about-face. First, Chairman Lee Iacocca had been angered by the Canadian Chrysler workers' five-week strike in November and December 1982. By contrast, American United Automobile Workers (UAW) members had taken the unusual step of rejecting the company's contract offer in November 1982 but had not issued a strike notice. When the Canadian UAW unit set a deadline, Iacocca issued a letter to Chrysler workers stating that a work stoppage would "cripple the company and, perhaps, ruin it. We will take a strike if we must, even though we are aware it could put us out of business" (Associated Press 1982).

Second, at the time of the project's abandonment, Chrysler officials may have either overlooked the tariff shortfall and therefore ignored the implications or considered the federal Order-in-Council already complete.[3] Third, by December 1982, Chrysler sales had started to recover, and Chrysler had not yet accessed its Canadian or Ontario loan guarantees (nor would it ever), rendering governments in Canada less valued as strategic partners. An Ontario Treasury and Economics briefing note speculated,

> Chrysler's behaviour … and the degree to which it has angered the feds, almost suggests that Chrysler is willing to forego the assistance. Chrysler's financial position has turned around sharply since a year ago when the loan guarantees were drafted. (Government of Ontario, Ministry of Treasury and Economics 1982).

Finally, it is possible that Chrysler had recognized that future demand for diesel engines would not materialize as projected. Indeed, the share of the US engine market claimed by diesel dropped from 6.1 percent in 1981 to 4.4 percent in 1982. By 1985, diesel engine market share had sunk to below 1 percent in the United States and remained at that level for the rest of the decade (*Ward's 1992 Automotive Yearbook* 1992).

Chrysler's abandonment of its deal with Perkins was not the only time the company reneged on deals affecting Canada during the 1980s. A research and development centre for Ontario, granted as part of the 1980 loan guarantees, was never built. In addition, a revamped Chrysler operating plan released in January 1981 contained significant changes from commitments the company made during the 1980 deal to avert bankruptcy. Planned investments in Canada were to be reduced by 40 percent, from $1 billion to $600 million, and Canadian employment commitments were cut back from 14,000 to 12,000 (Government of Ontario, Ministry of Industry and Tourism 1981c). The 1981 operating plan also confirmed that small cars would not be built in Canada. Instead, Canada was allocated a small van. As signatory to the loan agreements, Canadian government approval was needed before the new plan could proceed. However, before he would consent, federal Industry, Trade and Commerce Minister Herb Gray consulted the Canadian UAW. Recalls Gray, "The union said no, this won't work; we've got to have a real car" (Mordue 2004a). Upon the Canadian UAW's rejection of the plan, Gray insisted that Chrysler should return to its original proposal, and Chrysler acquiesced, agreeing to place a new small car in Canada (White 1987, 173). Eventually, though, Chrysler reneged on its commitment and stuck with its plan to locate the small van project in Canada.[4]

Setbacks involving Chrysler were just one source of anxiety for officials during the 1980s. Indeed, the visible and potentially costly collapse of the company in the early 1980s propelled policy-makers to seek alternative sources of FDI. Nissan was an early target. However, actions by Chrysler also tarnished Canada in the eyes of Nissan as a potential location for significant manufacturing.

The Protracted and Frustrating Case of Nissan

In many respects, the failure to lure Nissan to Canada was the most prolonged and disappointing of all because of hopes that Nissan would create a production base in Canada. Nissan had been building cars in Mexico since 1966 (Shimokawa 1994, 110) and was the first Japanese manufacturer to commit to building vehicles in the United States with the announcement in April 1980 of a pickup truck facility in Tennessee. Many believed that a Canadian facility was the next logical step. As chairman of the Japan Automobile Manufacturers Association, Nissan's president, Ishihara, had been exposed to international opportunities and threats and, during his eight years as president of Nissan, had developed a wide network of overseas ventures. A Canadian investment was consistent with the pattern of internationalization Ishihara promoted. Also, Nissan was Japan's second largest automaker, and with this status came increased pressures and expectations. Moreover, the rising value of the yen over the 1980s placed increasing pressure on companies such as Nissan to localize production. Many Canadian officials had also developed strong relationships with Nissan representatives. Canadian embassy official Larry Duffield (Mordue 2004b) recalls,

> You could never go to Japan and talk to a producer without talking to Nissan. [Federal Trade, then Industry Minister] Lumley had an extremely good relationship with Ishihara, who was a particularly strong CEO in Nissan.… There was a sense of failure, I think, felt by both sides.

Probably the greatest source of frustration over the failure to attract Nissan came from the fact that several viable options were considered. For example, three years after Nissan's Tennessee assembly facility was operational, the company was still not exporting vehicles to Canada. Nissan Canada President Roy Hoshino went so far as to declare, "Imports from Smyrna should not happen until an investment in Canada" (Daw 1986b). In fact, no fewer than five schemes came under consideration. These included a small assembly plant, a joint venture with Magna to produce car roofs, and a joint venture with Ford. In addition, prolonged talks were held with Chrysler on two occasions. These ended in a manner similar to that experienced by Perkins. The first was in 1984 when a potential engine facility, using the Chrysler plant that had been closed in 1980, was discussed. This experience proved particularly frustrating. Former Canadian Minister Lumley explained that then–Nissan President Ishihara had originally wanted his company to make the first significant Japanese automotive investment in Canada. That did not happen, but he later agreed to enter discussions with Chrysler. Lumley recalls,

> Iacocca called me and asked if I would intercede for them; help them make something work with Nissan in Canada. I never should have done it. But I did. They were going to place Nissan six-cylinder engines in the K-car.... Kume, who was later made president, was flying from New York on his way to Ottawa to make the announcement.... Meanwhile, Iacocca made a deal with Mitsubishi and cut the price by 40%. They announced it without telling Kume or me. Kume got to Toronto ... and went right back to Tokyo and blamed me. I was furious with Iacocca. "You used me, you lied to get a better deal from Mitsubishi," I said. "But we got a 40% discount from Mitsubishi," he said. "That's not the way to handle the Japanese. That's not the way to handle anybody. You lied to them and you used me. I find that disgusting. Don't come to see me for anything, because I'll tattoo you to the top of Parliament Hill." (Mordue 2005)

The experience damaged Nissan's relationship with Canada. Erech Morrison joined the automotive branch of Industry Canada in 1984 and was assigned responsibility for the Japan file: "All I heard in the margins and in the corridors of Japan over the period 1984–85 was that Nissan had a hard spot for Canada" (Mordue 2006).

However, by 1986, Nissan was again considering plans for an investment in Canada. Hoshino acknowledged that Nissan was talking to Ottawa about a plant that would produce parts, that the investment would be between $200 and $500 million, and that a decision was expected by the end of the year ("Nissan Canada Looking at a 'Solid Investment'" 1986). The *Toronto Star* reported during a trade mission to Japan by Ontario Premier David Peterson that Nissan was preparing plans to build automatic transaxles—a transmission and axle combination used in front-wheel-drive vehicles—in Windsor and that Chrysler would be the principal customer (Daw 1986c). After a meeting with Peterson, Nissan President Kume confirmed that his company had "almost decided" to build a plant in Ontario (Gibson 1986). When the investment had still not been announced by the end of 1986, Nissan officials in Canada remained optimistic: "Our head office in Tokyo is studying an investment in Canada very seriously," said Nissan Canada President Hoshino in January 1987, "but we haven't decided yet" ("Nissan Is Considering Building $200 Million Plant, Officials Say" 1987).

By March of that year, after a trip to Japan, the Quebec Industry Minister remained optimistic, confirming that his province was a candidate for the investment. Almost a full year passed and the Nissan–Chrysler deal once again dissolved, but in February 1988, Nissan Research and Development President Takeshi Tanuma stated that the company was still anxious to build engines and transmissions in North America to reach a goal of 75 percent North American content and that Canada was a candidate for such an investment (Eisenstein 1988).[5] In the meantime, attention turned to securing Canada as a location for a joint venture with Ford to produce vans. Hoshino and Canadian Ford President Ken Harrigan both attempted to secure the mandate (Daw 1987a, 1987b), but it was ultimately awarded to Avon Lake, Ohio, in September 1988.

Although there was much justification for Canada to have believed it was well positioned to secure an investment from Nissan, several reasons are offered for why it never materialized. By 1986, when rumours of an impending investment were most intense, Nissan sales, unlike those of other Japanese brands in North America, had stalled, and its market share had declined (*Ward's 1992 Automotive Yearbook* 1992). Nissan was alone among the Japanese automotive brands offering low-interest-rate financing (Daw 1986a). In addition, during the first half of the fiscal year—1 April–30 September 1986—Nissan reported an operating loss (Milner 1987b).

Most important, individual company allocations under the system of voluntary export restraints imposed on Japanese manufacturers in the United States were based on 1980 sales levels. In 1986, Nissan was producing 65,000 cars (*Ward's 1992 Automotive Yearbook* 1992) and 108,000 trucks (*Ward's 1992 Automotive Yearbook* 1992) in Tennessee. However, with sales stuck at essentially the same levels in the mid-1980s as they were in 1980, Nissan would have had unused quota available, making expansion into Canada less compelling. In this regard, Nissan was alone among the Japanese producers. Larry Duffield reflects on the frustration: "Nissan was just a

disappointment from both sides. It didn't happen because someone made a mistake; it just couldn't come together properly. . . . That was one of the great tragedies of our auto program" (Mordue 2004b).

Daihatsu–Bombardier: A Canadian Car?

The final setback in Canada's efforts to secure automotive FDI during the 1980s involved Daihatsu Motors, the smallest of Japan's nine automakers. Given its connection to Canadian industrial giant Bombardier, it represents the closest Canada ever came to producing a genuinely Canadian car since McLaughlin was sold to GM in 1918. Between 1985 and 1987, Daihatsu's potential Canadian partner, Bombardier, spent approximately $15 million, about two-thirds of which was government funded (Gibbens 1986), researching the efficacy of building and marketing small cars using imported Daihatsu drive trains. The appeal for Bombardier, the recreational vehicle, railcar, and aircraft producer, was an opportunity to fill what it perceived to be an underexplored niche in the North American market. "We're not looking at cars to compete with Chrysler or GM," commented Bombardier chairman Laurent Beaudoin in June 1986. He observed, "Big producers have difficulty in this market. A small company like ours could fit into a niche like that" ("Car Plant Talks at Critical Stage, Bombardier Says" 1986). For Daihatsu, which was not importing cars into North America in 1981 when the Japanese export restraint system was established, localized production offered a means to enter the market. Plans had been devised to launch in a two-wave strategy. The first would see production of a derivative of a small four-wheel-drive vehicle at a level of 20,000 units annually in a plant adjacent to one of Bombardier's existing facilities in Valcourt, Quebec. In the second stage, a new factory would be constructed to build 200,000 vehicles, half of which would be Daihatsu passenger cars, the other half of which would be a Bombardier small car using a Daihatsu drive train ("Last of Japan's Automakers to Locate in North America; Daihatsu to Tie Up with Canada's Bombardier to Produce 4WD Vehicles, Subcompact Cars" 1987).

The Daihatsu project was stopped in June 1987. Several reasons are offered for the suspension. First, in March 1987, Daihatsu had been allocated an export quota by the Japanese Ministry of International Trade and Industry at the expense of other makers. Daihatsu received approval to ship enough vehicles to the United States to start a marketing program on the West Coast ("Daihatsu Goes to U.S." 1987). The allocation may have contributed to Daihatsu's feeling less pressure to proceed with the investment. Second, Daihatsu had misgivings about Bombardier's insistence on using its large dealer network, originally set up to distribute snowmobiles (Enchin 1987). Third, Daihatsu had reservations about building in the province of Quebec (Milner 1987a). Quebecers had recently rejected the separatist Parti Québecois government, yet the perception of political instability persisted. Fourth, the two companies were preparing to compete with a small-car-only strategy, a segment of the market in which profits are traditionally very low. With no larger, higher profit vehicles to complement the range, the companies may have concluded that the risks of going ahead were too high. Fifth, in 1985, when the seeds of the Bombardier–Daihatsu plan were planted, the participants anticipated exploiting an underexplored niche in the North American market. By 1987, however, when the project was abandoned, issues of overcapacity loomed. In a 1988 interview, Bombardier president Raymond Boyer allowed: "It became evident that world auto plant capacity was 30, 40 or 50 per cent unused, which meant that . . . people would try to beat us in the niche where we would try to go" (Valpy 1988). Indeed, after the two companies launched their feasibility study in 1985, several other low-cost manufacturers announced their intention to establish marketing or manufacturing operations in North America. These manufacturers included Skoda from Yugoslavia and Hyundai, Daewoo, and Kia from Korea. In addition, North America's traditional Big Three were preparing to import vehicles from low-cost countries such as Taiwan and Korea and badge them as Ford and GM products in North America. Finally, there is some question about how serious, sincere, and committed the participants truly were. Former Canadian Embassy official Larry Duffield reflects,

> I never took it seriously. I never saw the Bombardier people expressing themselves and the Quebec people were far too intermittent in my model for investment promotion or economic development. They needed to be there. . . . Investment promotion is a lot of detail, a lot of work over periods of months. I didn't see that pattern with Daihatsu or Bombardier. To me, you're not going to invest millions of dollars unless you engage in the details. (Mordue 2004b)

Ultimately, the potential partners heeded the warning signs and shelved their investment plans. Although Daihatsu did enter the market, it struggled from the start. The company sold just 15,000 vehicles in the United States in 1990, slumping to 9,000 in 1991 (*Ward's 1992 Automotive Yearbook* 1992). By February 1992, the company announced it would no longer develop products for the North American market ("Daihatsu Pulls Back" 1992), thus validating the caution that led to the abandonment of its Canadian joint venture five years earlier.

Discussion and Conclusion

The path that Canada and its provinces took to secure offshore automotive investment in the 1980s was not without setbacks and frustrations. Indeed, the process that Canadian policy-makers underwent in the late 1970s and 1980s provides a range of lessons, many of which are summarized next. Some are specific to FDI attraction, but most have broader application.

First, the process of coalescing around policy goals and objectives can be disordered. By the late 1970s, for example, the Auto Pact was more than a dozen years old. Canadian policy-makers were starting to think about how to rejuvenate the country's automotive industry but were unable to set their sights on anything approaching a specific goal or concrete strategy. In the early years of this transition—before successes accumulated—they overlooked opportunities or dabbled with smaller, less desirable second-tier targets. Even then, a fog of diffidence and indifference existed about the likelihood of success in terms of attracting new sources of automotive FDI. Had this article been fixed on charting positive stories only—the "wins"—the messy process of developing goal congruence would have been overlooked. Had the early-phase setbacks not been catalogued, one might be forgiven for assuming that major policy shifts (such as the one that caused positive outcomes in terms of automotive FDI attraction in Canada in the 1980s) are disciplined, purposeful, and direct. The process of reaching productive strategies can be less methodical than the more visible stories of success might suggest.

Flowing from this—and having the benefit of full knowledge of the success that ultimately ensued—it is possible to suggest that policy-makers should establish aspirational goals and they should do so at the outset. After all, second-tier targets require as much effort as aspirational targets. For example, if officials thought that Canada represented a viable investment location for Fiat or British Leyland in the early 1980s, what made them conclude that aspirational targets should be off limits? Second-tier companies have many of the same options as larger ones. Ultimately, Canada was successful in its pursuit of Honda, Toyota, Suzuki, Hyundai, and Renault, but those efforts came later, requiring new leadership, loftier ambitions, and a different approach.

Next, certain cases described here demonstrate that the motivations of potential partners are not always transparent and, therefore, not necessarily aligned with those of policy-makers. Canadian government officials, for example, could only assume that Lotus was well intentioned when it expressed interest in investing in production facilities outside of the United Kingdom. How could policy-makers be expected to know that Canada was being set up to serve as a false suitor, deployed to extract concessions from the home government? Similarly, it may be possible to view Canadian officials as naïve in their dealings with Chrysler. The reality is that FDI targets—or any potential partners—may be balancing several objectives, not all of which are visible to policy-makers.

Some of the cases described here demonstrate just how chaotic investment attraction can be. Understandably, conditions change, prompting shifts in strategy. Planning horizons for projects of the magnitude featured here can extend beyond business cycles. For example, when the export restraint system eased for Daihatsu, their rationale for Canadian production dissolved. Similarly, collapsing sales shifted the calculus for Canadian production for both Fiat and Nissan. These are rational and justifiable shifts caused by changing business conditions.

Some pivots, however, are less rational. Here, I am referring to the directional changes caused by single personalities—people in a position to cause rapid adjustments, often without full knowledge of the details. Chrysler's decision to abandon its diesel engine joint venture with Perkins seemed to be made independent of communication with its partner. As well, in light of the fact that the decision had the potential to compromise a $245 million tax liability waiver, it suggests that big decisions—even ones in large, sophisticated companies—are not always made with measured process and full information. They can be made in an impetuous manner, devoid of governance.

Finally, on occasion, efforts are rebuffed or policies fail, not because a strategy is weak, flawed, or inadequate. Sometimes, exogenous factors crash in. The recurring failure to lure Nissan is a case in point. The various Chrysler chronicles provide a similar lesson. Should officials be expected to anticipate all challenges? Should they be constantly at the ready to adjust course? The answer to both seems to be "unlikely."

The 1980s changed the make-up of the Canadian auto industry. Five major new final assemblers entered the Canadian automotive manufacturing environment. It is easy to focus on the winners, the large operations such as Toyota, Honda, and CAMI, that entered and stayed. Their contributions to the history, fabric, and trajectory of the industry in Canada are important. However, the stories of overtures rebuffed and opportunities missed are equally as important. By examining archival sources, by interviewing both high-profile and less notable actors and triangulating those primary sources along with other secondary sources, one is able to round out the business history of an important period in the Canadian automotive industry. Last, as has been demonstrated, these cases offer relevant lessons for contemporary policy-makers and for those engaged in the attraction of inward FDI.

Notes

1 The long death march of British Leyland has been well documented by Lewchuk (1987), Williams et al. (1994), Church (1995), and McLaughlin and Maloney (1996).

2 To import vehicles duty free into Canada, the Auto Pact required individual companies to meet two key provisions: Make one vehicle in Canada for every vehicle they sold in Canada and generate CVA equal to 60 percent of their sales. The penalties for violation of the Auto Pact were severe: the imposition of duties on all imported vehicles and parts.

3 Auto Pact provisions regarding production to sales ratios and CVA stipulation were audited on an annual basis by the Department of National Revenue. Violations of the requirements were subsequently reported to the Department of Industry, Trade and Commerce, which could either request that the Department of National Revenue collect the duty payable or submit an Order-in-Council, along with the Departments of National Revenue and Finance absolving the company of the duty owed. Generally, such remission orders would be conditional on performance guarantees (Government of Ontario, Ministry of Treasury and Economics 1980).

4 Despite Canadian UAW head White's reservations, the small van project proved very successful. "A solid seller, it has been providing jobs six days a week ever since" (White 1987, 173).

5 It took almost one decade for such an investment to occur. Nissan's North American engine and transmission facility did not open until 1997—not in Canada, but in Decherd, Tennessee.

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