Is the Pending Chinese Takeover of Aecon Group Inc. in the Best Interests of Canadians?

Description

Last week it was announced that the proposed $1.5-billion takeover of Canadian construction company **Aecon Group Inc.** (TSX:ARE) by CCCC International would be delayed as the federal government undertakes a national security review of the deal.

While the two companies had originally expected the deal to close by February 23, the date has since been pushed back to March 30.

CCCC International is the overseas investment and financing arm of **China Communications Construction Company Ltd.**, one of the world's largest engineering and construction firms and a state-owned enterprise that is 64% owned by the Chinese government.

It's a national security issue

Shortly after the deal was announced, Prime Minister Trudeau and the Liberal government received stern warnings from opposition members of parliament to take national security seriously.

The Liberal government came under criticism last year for a similar matter after approving Chinese-based Hytera Communications acquisition of Norsat — a manufacturer of telecommunications systems used by the American military and other NATO partners.

While China's ambassador to Canada has suggested that there's no need to review the Aecon deal, as "the technology from the Chinese side is much higher than the Canadian side," the issue at hand is slightly more complicated than that.

CCCC International has been banned from bidding on World Bank construction projects for eight years following a scandal originating from deals it had bid on in the Philippines; it was recently blacklisted by Bangladesh over corruption allegations.

But it's also a foreign relations issue

In addition to managing the issue of national security and public perceptions of the public at large, the Trudeau government is also trying to orchestrate a difficult balancing act between its Chinese and U.S. trading partners.

On one hand, there are those suggesting that a Canadian policy leaning too heavily toward Chinese interests could stand to upset U.S. President Trump, who may retaliate by pulling out of the North American Free Trade Agreement (NAFTA).

However, some suggest that working to develop a more positive relationship with Chinese interests will help reduce Canada's economic dependence on the United States.

In December, Canada and China found themselves unable to launch formal trade negotiations following the abandonment of the Trans-Pacific Partnership, agreeing instead to continue exploratory discussions.

Conclusion

At this point, it's likely that the proposed $1.5 billion deal will go off without a hitch.

The proposed takeover has already passed through most of the checks and balances of the Canadian system, including a vote of approval by Aecon's shareholders, clearance from the federal judicial system, and a green light from regulators to ensure the agreement will not hinder local competition.

Over its 140-year history, Aecon has been responsible for constructing some of the country's most iconic landmarks, including the CN Tower, Vancouver's SkyTrain and the Halifax Shipyard.

While it's disappointing that Canada could soon lose control of a company that has played such an important role in its history, at the same time, Aecon's new ownership stands to benefit from access to greater resources through its relationship to the Chinese government.

This is something that could ultimately prove to be a win for Aecon, its employees, and Canadian interests.

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