Overview of Canada's investment performance

V

Global foreign direct investment inflows

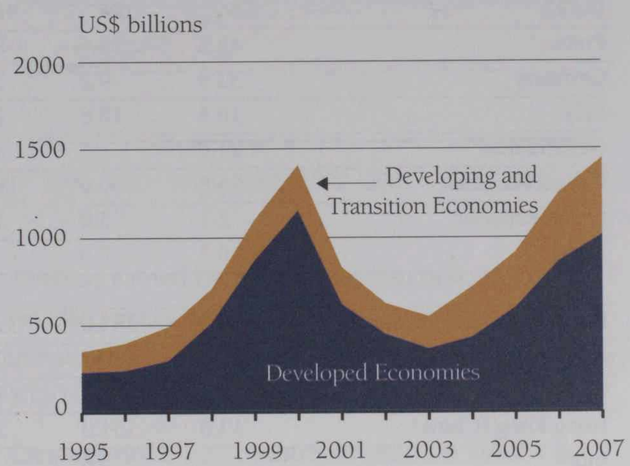
Foreign Direct Investment (FDI) provides benefits to host economies through the transfer of knowledge, technology and skills, and increased trade related to the investment, all of which contribute to productivity and competitiveness, and is one of the ways in which countries can integrate their economies into global value chains.

FDI has played a critical role in globalization, with flows increasing 600 percent between 1990 and 2000. Since 1980, the world FDI stock has dramatically outpaced growth in both world exports and world GDP. While flows declined in the early part of this decade, world FDI inflows have grown on average by 28.5 percent per year since 2003, rising to US$1.5 trillion in 2007 (Figure 5-1), and surpassing the previous record observed in the year 2000.

The continued rise of FDI reflects strong global economic growth, increases in corporate profits, higher stock prices, the growth in private equity and hedge funds, and the increasing role of state investment agencies in emerging economies. However, despite the doubling of global FDI flows between 2004 and 2007, there are mixed prospects for 2008. World economic growth has slowed and recent turmoil in credit markets has resulted in a slowing down of cross border merger and acquisition activity in the last half of 2007, a trend that may continue into 2008.

FDI flows grew fastest for developed countries in 2007 at 16.8 percent, with total inflows valued at over US$1.0 trillion (Table 5-1). The United States received the most FDI inflows at US$192.9 billion, although the European Union member states[1] accounted for 39.7 percent of all FDI inflows at US$610.0 billion. Of the EU countries, three were responsible for two-thirds of the EU's share: the United Kingdom at 28.0 percent (US$171.1 billion), followed by France at 20.2 percent (US$123.3 billion) and the Netherlands at 17.0 percent (US$104.2 billion).

Figure 5-1
Global FDI Inflows



Developing countries also experienced a brisk growth rate of 15.6 percent, bringing total flows for 2007 to US$438.4 billion, a 145 percent increase over 2003 inflows. FDI flows to Latin America and the Caribbean rose to their highest recorded level at US$125.8 billion, with inflows nearly doubling in Mexico, Chile and Brazil. Growth in this region was driven by greenfield[2] investments rather than mergers and acquisitions.

1 Excluding Romania and Bulgaria which are not yet included in EU data.

2 Greenfield investment is outlays for the establishment of a new enterprise or the expansion of an existing enterprise.