The data show that the sums borrowed and lent across Canada's borders are vast, as a result of the optimal international diversification of equity investment, even though the net flow in capital is much smaller. In the context of FDI in NAFTA countries, Canada's share of inward FDI flow was 8 percent in 1999, up somewhat from 6.6 percent in 1989. Canada's share shot up to a high of 17 percent in 1992 before trending down thereafter. The volatility in direct investment flows reflects mergers, acquisitions and outright purchases of existing firms, activities that are often associated with sizeable transfers of funds.[22] The rise in Canada's share between

Table D2: World FDI Outflows in US$ millions

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
World	217,874	240,253	210,821	200,800	247,425	282,902	357,537	390,776	471,906	687,111	799,928
NAFTA	30,369	32,124	39,278	43,180	80,438	83,606	103,275	97,562	123,140	178,701	169,517
Canada	4,584	4,725	5,655	3,547	5,711	9,296	11,464	13,098	22,515	31,286	17,816
United States	25,678	27,175	33,456	38,978	74,837	73,252	92,074	84,426	99,517	146,052	150,901
Mexico	107	224	167	655	-110	1058	-263	38	1108	1363	800
Distribution of NAFTA FDI Outflows (percent)											
Canada	15.1	14.7	14.4	8.2	7.1	11.1	11.1	13.4	18.3	17.5	10.5
United States	84.6	84.6	85.2	90.3	93.0	87.6	89.2	86.5	80.8	81.7	89.0
Mexico	0.4	0.7	0.4	1.5	-0.1	1.3	-0.3	0.0	0.9	0.8	0.5

Source: UNCTAD World Investment Report, Annex Table B.2

1989 and 1999 occurred at the expense of both the United States and Mexico. Mexico's share of NAFTA inward flows eased from 4.2 percent in 1989 to 3.6 percent in 1999, after peaking at 17.1 percent in 1994. The share for the United States fell from 89.2 percent in 1989 to a trough of 67.3 percent in 1992, and recovered to 88.4 percent by 1999, reflecting flows associated with merger and acquisition activity by the EU. FDI has played a rising role in Canada's investment performance. The inflow of FDI in 1999 represented 31.8 percent of Canada's total business investment in non-residential structures and in machinery and equipment, up from 8.8 percent in 1989.

Typically, outward FDI is associated with significant growth in exports of the originating country in the form of intermediate and complementary supply of finished goods. Even though FDI outflow may have a substitution effect on exports of finished goods, an "analysis of 14 countries demonstrated that each dollar of outward FDI produces about two dollars' worth of additional exports."[23] This evidence refutes the popular myth that outward FDI reduces exports and employment by transferring production facilities and jobs to foreign locations. In the case of outward FDI flows, Canada's share in North America was down from 15.1 percent in 1989 to 10.5 percent in 1999, although this series has been very volatile, falling to a low of 7.1 percent in 1993 and rebounding to a high of 18.3 percent in 1997. Because Mexico's direct investment outflow is insignificant, developments in the United States mirror those in Canada.

[22] According to Crosbie and Co., a Canadian investment banking service company, foreign corporations bought up 222 Canadian companies in 2000 to the tune of $102 billion. The weak U.S. dollar value of the Canadian dollar did not appear to be a factor, as a number of the takeovers were by European corporations at a time when the Canadian dollar had risen sharply against the euro. Some of the more prominent acquisitions include the $49.5 billion takeover of Seagram Co. by Vivendi SA of France, and the $10.8 billion takeover of Newbridge Networks Corporation by Alcatel SA of France. Canadian corporations also acquired 318 foreign corporations for a total amount of $56.5 billion in 2000.

[23] Lionel Fontagne, "Foreign Direct Investment and International Trade: Complements or Substitutes?" Working paper 1999(3), OECD Directorate for Science, Technology and Industry, October 14, 1999.