



3 Investment

Foreign investment flows worldwide have grown rapidly in recent years and have figured prominently in the trend toward global economic integration. The global stock of outward foreign direct investment has increased more than 10-fold over the past two decades, from US\$594 billion in 1982 to US\$6.9 trillion in 2002.

Canada is an active player in this global economy. The stock of Canadian direct investment abroad (CDIA) increased over fourfold from \$98.4 billion in 1990 to \$432 billion in 2002. Over the same period, the stock of foreign direct investment in Canada more than doubled, from \$131 billion to \$349 billion. Since 1997, the stock of Canadian direct investment abroad has surpassed the stock of foreign direct investment in Canada.

Canadian Direct Investment Abroad

Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. For many Canadian firms, investment abroad is an essential element of business strategy, particularly in high-growth markets, where a physical presence is often a prerequisite for effective access. These firms understand that higher levels of investment in foreign markets are often linked to higher levels of export penetration into those markets. In fact, the Organization for Economic Cooperation and Development (OECD) has found that each dollar of outward foreign direct investment is associated with some two dollars of additional exports.

In 2002, 47% (\$202 billion) of Canadian direct investment abroad was located in the United States. A further 23% of CDIA (\$100 billion) was based in the European Union. Other major Canadian investment locations include the Caribbean, Latin America and Japan. In line with global trends, developing countries are becoming increasingly important destinations for CDIA. In 1990, 13% (\$13.1 billion) of Canada's outward investment was in non-OECD developing countries. By 2002, that proportion had increased to approximately 20% (\$87 billion).

With 41% of the total stock of CDIA in 2002, the finance and insurance sector continued to be the largest sector for CDIA. In 2002, significant amounts of CDIA were in services and retailing and the energy and metals industries, bringing their proportion of the total stock of CDIA to 13% and 19%, respectively.

Foreign Direct Investment in Canada

The benefits of investment flows are now well recognized, and countries compete aggressively to attract inward investment. Inward foreign direct investment in Canada is an important source of