

Executive Summary

The objective of this study is to provide a non-technical descriptive review of inward Foreign Direct Investment (FDI) data with respect to Canada, the US, and Mexico. The paper provides an overview of FDI trends over the 1985-94 period and then addresses two related issues. First, what role does FDI play in a country's economy, and what specifically is its role in Canada? Second, data is presented on FDI trends in the North American region during the study period.

In regard to the linkage between FDI and the Canadian economy, a number of observations are made. Importantly, the data confirms that the share of FDI stock in Canada's GDP, and its gross fixed capital formation, is significant. The complementarity between trade and FDI is also strong in the Canadian case. Foreign companies' share of the total revenues generated by all businesses in Canada been increasing, and foreign affiliates' share in Canadian trade is high. The export and import propensities of the Canadian subsidiaries or affiliates of foreign investors are also high.

A comparison of FDI data reveals no significant increase in the share of FDI in Canada's GDP between the 1980's and 1990's. Throughout the study period, the role of FDI in gross capital formation is significant in Canada, the US, and Mexico. For Canada a comparison of the figures in the mid-1980's and 1990's, in both areas (FDI's share in GDP and in gross capital formation), does not suggest significant differences.

The data on FDI trends in the North American region during the study period was the second issue addressed in this paper. The total quantity of FDI increased in Canada, the US, and Mexico over the period. The Canadian share of annual global FDI inflow during the latter period, however, was lower than the earlier period. In terms of the US FDI to Canada, the US share has declined since 1985, but has begun to increase during the 1990s.

The data further indicate that the share of Canadian FDI stocks in the US appears to have increased slightly since 1989. Moreover, 1995 data on FDI flows indicates that Canada's share in the US increased significantly. What is clear from the data presented in the paper is that despite the increase in the total volume of FDI in Canada, its share of global FDI has declined.