

BOX D: THE GEOGRAPHY OF CANADIAN DIRECT INVESTMENT ABROAD

The rapid expansion and magnitude of international trade is only part of what has become a global economy. The volume and growth of capital flows in general and Foreign Direct Investment (FDI) in particular is an important component in the broader international commerce story. In 2003, the total size of world international trade flows reached US\$ 7.4 trillion while total world FDI stock reached US \$8.2 trillion. Canada's foreign investment overseas is an important aspect of Canada's relations with the rest of the world. Canadian direct investment abroad (CDIA) more than tripled since the late 1980s to reach \$399 billion by the end of 2003. By comparison, Canada's total exports of goods and services more than doubled (growing 174 per cent) over the same period.

Given the growth and size of Canadian foreign investment and its relationship with international trade, it is important to understand the nature and patterns of CDIA.

The geography

Table D-1 summarizes the geography of CDIA across countries covering two periods (averages over 1987-91 and 1999-03). As seen in the table, the United States remained the most favored location for CDIA, accounting for 47.1 per cent of CDIA in recent years, though its share in total CDIA fell gradually from the recent high of 62 per cent in 1987-91. The remainder of CDIA is geographically dispersed across countries in Europe, the Caribbean, Latin America and Asia. Almost 10 percent of CDIA between 1999 and 2003 went to the United Kingdom.

Table D-1: Top 15 Destinations of Canadian Direct Investment Abroad (millions of dollars)

	Ave(87-91)	Ave(99-03)	% of Total
United States	55,981	176,450	47.1
United Kingdom	11,205	36,307	9.7
Barbados	1,351	23,136	6.2
Ireland	1,173	11,763	3.1
Netherlands	1,188	10,316	2.8
Bermuda	1,769	9,823	2.6
Bahamas	1,872	7,738	2.1
Japan	890	7,023	1.9
Cayman Islands	143	6,827	1.8
Hungary	2	6,807	1.8
Brazil	1,521	6,557	1.7
Germany	800	5,917	1.6
Chile	230	5,704	1.5
France	1,456	5,634	1.5
Australia	2,091	5,131	1.4

What determines the pattern of what countries CDIA reaches? Recent research examining the bilateral pattern of foreign direct investment has found that the main determinants of the location of CDIA are host country income levels, geographic proximity, and whether the two countries share a common language. This "gravity" relationship has been used extensively in explaining trade flows, and typical findings are that two-thirds of the geographical pattern of trade can be 'explained' by these few variables. Our own analysis shows that a