the period from 1989 to 1995. He noted that while the level of FDI in Canada was increasing, Canada's relative share of global FDI was falling due to an explosion of FDI elsewhere. He also notes there was a trend toward Canadian FDI going to destinations other than the U.S. Similar results are found in a case study of three regional integration agreements. Magnus Blomstrom and Ari Kokko (1997) look carefully at the Canada-U.S. FTA. They suggest that the effects of liberalizing investment on Canada would be expected to be modest at best. Looking at the data from 1983 to 1995 they conclude that bilateral direct investment has increased since the early 1990s. However, before that, the relative importance of bilateral direct investment changed erratically, and it is difficult to discern a consistent pattern in FDI flows that would clearly be related to the FTA. Inward direct investment from countries other than the United States exhibits no consistent pattern over the period studied, although the largest inflows took place between 1988 and 1990, right after the implementation of the FTA. However, like Schwanen, they note an increasing share of Canadian outward FDI going to places other than the US after 1990. They argue that the profitable opportunities encouraging a redirection of Canadian direct investment outflows were not related to FTA, although it may have played an important role in that it guaranteed access to the US market, so that available FDI resources within Canadian firms could instead be utilized to establish Canadian presence in other markets.

More recently, there have been some econometric studies which take up these issues. Globerman and Shapiro (1999) estimate capital inflows to Canada and capital outflows from Canada for the period 1950-1995. The dependent variables used are FDI in Canada and Canadian FDI abroad, with explanatory variables including Canadian GDP, GDP abroad (US and UK), relative costs (Canada-US, Canada-UK), exchange rates, investment climate (investment to GDP ratio in Canada), Canadian imports and exports. They estimate two equations, one for inbound foreign investment into Canada (FDI) and one for outbound foreign investment from Canada (ODI). The results suggest that FIRA (the Foreign Investment Review Act) had little influence on either FDI or ODI. On the other hand, trade liberalization agreements (NAFTA, FTA) had statistically significant impacts on gross FDI and ODI flows with a net bias toward ODI.

Hejazi and Safarian (1999) analyze the impact of outward (inward) FDI on the economy, specifically on trade (imports, exports) using a gravity model of bilateral trade. Using bilateral trade and FDI data between Canada and 35 other countries over the period 1970-96, the paper establishes that trade and FDI are complementary.[3] The results indicate that outward (inward) FDI increases exports (imports) and the size of the impact of inward FDI on imports is one-third that of outward FDI on exports. Over the period 1970-1996, the stock of inward FDI was larger than the stock of outward FDI. The ratio of the stock of inward FDI to GDP fell from about 30 percent in 1970 to 20 percent in the early 1990s and increased

[3] This study also looks at more detailed industry level links between trade and FDI for Canada, the United States, the United Kingdom and Japan. They find overall that outward FDI and exports are complementary rather than substitutes. For inward FDI they find that inward FDI tends to increase imports.