

Annex:
Canadian ODI: Recent Trends¹⁰

Empirical evidence seems to indicate that Canadian firms are becoming more involved in ODI. Canada is no longer just a recipient of investment inflows, but is increasingly a source of international investment capital. Whether this is viewed as a signal of strength and maturity in Canadian firms' international position or as a sign of weakness of the domestic economy, depends on the assumptions made about the motives and results of ODI. As noted above, most evidence seems to indicate that ODI is indicative of growing firms that must expand beyond the domestic market to gain market share.

Canadian ODI reached \$99 billion at the end of 1992, doubling since the mid 1980s. Approximately 95 per cent of the \$45 billion increase of ODI from 1986 to 1992 was financed with net outflows of Canadian capital. Over 75 per cent of the Canadian funds went to create or add capital in subsidiaries abroad, with the balance used to acquire foreign businesses. Over this period, ODI has also recorded faster growth than FDI in Canada, which has brought Canadian direct investment assets into better balance with liabilities. Most ODI was accounted for by Canadian-controlled firms at year-end 1991. Although just under 20 per cent was accounted for by enterprises controlled by non-residents, this share has been declining.

Canadian ODI is predominantly in OECD countries, with the U.S. accounting for 58 per cent of the total at year-end 1991. The U.S. share, however, has been declining in favour of European countries, which held 21 per cent of the total at year-end 1991. Consistent with global direct investment patterns, the developing countries overall are not a major destination for Canadian ODI.

Canadian-owned firms tend to invest horizontally in industries in which they are already involved. The largest share of Canadian ODI, 25 per cent at year-end 1991, was concentrated in the financial and insurance industries, while the metallic minerals and products industry followed at 13 per cent. Horizontal investment patterns and the predominance of the U.S. and Europe as destinations of Canadian ODI would tend to reinforce the view that access to low wage labour is not the prime motivating factor encouraging Canadian firms to invest abroad. Instead, horizontal investment

¹⁰Much of the information presented in this annex is based on F. Chow, "Recent Trends in Canadian Direct Investment Abroad -- The Rise of Canadian Multinationals", *Canadian Economic Observer*, Statistics Canada Catalogue No. 11-010, December 1993.