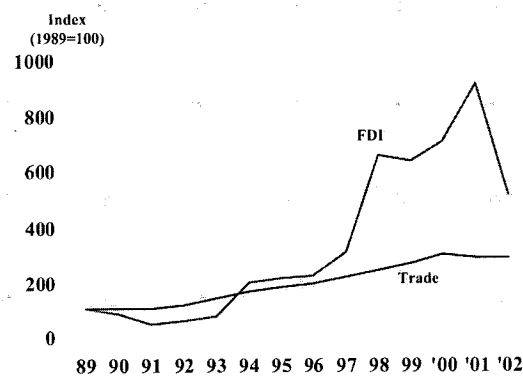


2.4 FOREIGN DIRECT INVESTMENT

Canadian foreign direct investment (FDI) flows with the U.S. increased tremendously between 1989 and 2002, growing at an average annual rate of 13.4 percent – significantly outstripping growth in trade (see Figure 2.4.1). Canada-U.S. FDI flows were roughly balanced over the period as a whole, with U.S. investment in Canada only slightly outpacing Canadian investment in the U.S. While a dramatic increase in FDI flows was witnessed shortly following the implementation of NAFTA, it is unlikely that NAFTA was actually a significant driver of these flows. A

Figure 2.4.1

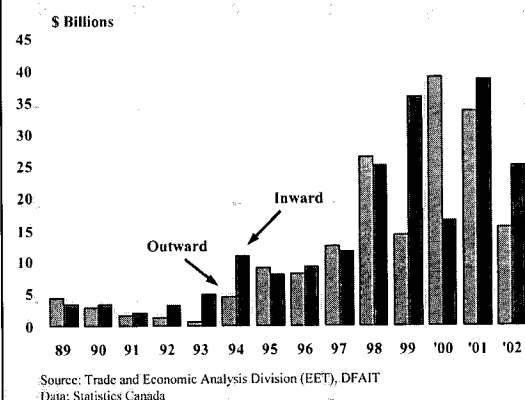
Growth in Canada-U.S. Trade and FDI Flows



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Figure 2.4.2

Canada-U.S. FDI Flows



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada

small number of “mega-mergers” is responsible for a large portion of this activity as well as for the extremely high volatility in FDI flows over this period. It must be noted that a similar boom in FDI activity also took place within many regional economies as well as between them; trends in Canada are generally consistent with those witnessed globally.¹⁰

Table 2.4.1

Canada's Direct Investment Flows with the U.S.

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Outward	4,512	4,592	15,456	0.35	16.38	9.93	72.37	36.17	35.24
Inward	3,397	10,932	25,086	26.33	10.94	16.63	47.74	97.55	74.65
Balance	1,115	-3,057	-5,167	N/A	N/A	N/A	-126.56	-205.44	-50.37

* Compound annual growth rate

Source: Statistics Canada, Balance of Payments

¹⁰ M&As accounted for 50.3 percent of Canadian outward FDI flows and 57.1 percent of inward flows between 1997 and 2001. Data on the share of Canada-U.S. FDI flows accounted for by M&As are not available due to confidentiality reasons.