



Over the past decade, international investment flows have been at the centre of a restructuring global economy. An exponential expansion in direct investment flows has taken place in this period; these flows are increasing at an average annual rate of about 14%. In 1996, worldwide annual direct investment flows were estimated to be an unprecedented US\$350 billion. World stocks of foreign investment reached an estimated US\$3.2 trillion by 1996. In 1996, sales attributed to these foreign affiliates were over \$6 trillion.

While the larger portion of this economic activity continues to be among countries in the developed world, the developing world and emerging economies are also becoming active, particularly (but not exclusively) as host economies for foreign investors. An unprecedented US\$100 billion was invested in the developing world in 1995 alone. Clearly, countries at diverse stages of development find it in their interest to welcome foreign investment; and are competing to attract it.

Inward foreign direct investment (FDI) is a principal source of growth because it is an important supplement to domestic savings. Investment in plant, equipment and production processes is fundamental to Canada's long-term competitiveness. FDI also provides access to global technology and management expertise. Investment in research and development creates new products and processes that will increase our productivity and make Canada more competitive internationally. These supplemental resources also promote Canada's export competitiveness.

One recent assessment indicates that a \$1-billion increase in new inward investment to Canada generates, over a five-year period, about 45 000 jobs and \$4.5 billion in GDP. This assessment estimates that one job in 10, and about 50% of Canada's total exports (and 75% of manufacturing exports) derive from inward FDI. A large proportion of profits from new investments (about 50%) is reinvested in Canada, contributing to a higher growth rate and a more rapid rise in Canadian living standards.

Canada provides an attractive environment for foreign investors. Our labour force is one of the most highly skilled and best educated in the world. Canadian infrastructure — roads, airports, ports, plants, equipment — is "leading edge." The Canadian economy is competitive and knowledge-intensive in such sectors as energy; mining; agri-food; forestry and paper; automobiles; machinery and transportation equipment;

finance; telecommunications; biotechnology; computer software; medical devices; pharmaceuticals; and ocean technologies. Our excellent health-care and education systems are cornerstones to our high quality of life.

These Canadian advantages have not been achieved by compromising our overriding economic and social objectives. Foreign investors in Canada are subject to the same laws as are Canadian investors, including those aimed at protecting the environment, ensuring the highest labour, health and safety standards, taxation, building codes and municipal zoning — indeed, all of the laws and regulations that affect businesses operating in Canada.

CANADA'S MULTI-TRACK POLICY APPROACH

The growth in foreign investment by Canadian business has increased the demand for improved access, and greater protection, for Canadian investments. The government's policy initiatives in the area of international investment, therefore, focus on providing both an attractive environment for inward investment, and access, transparency and protection for Canadian investors abroad. International rules, which are still in their infancy in the international economic system, are essential tools in providing a stable, transparent and open environment for international investment flows. Such rules are being developed in a number of forums, including the WTO, under the auspices of the OECD, and at the regional and bilateral levels, although there is no single set of comprehensive rules at this time.

Bilateral and Regional Initiatives

Canada has instituted an active bilateral program of investment negotiations. A central objective of the Foreign Investment Protection Agreement (FIPA) program is to provide guarantees, transparency and access for Canadian investors in specific priority emerging and developing economies. The federal government has negotiated 24 of these agreements since 1989 — eight of which were signed in 1997 — and is currently negotiating agreements with important emerging countries such as China, Russia, India, Brazil and Argentina.

Canada negotiated a high-standard investment agreement with the United States and Mexico as part of the NAFTA in the early 1990s. The NAFTA investment agreement has been considered by many to be a