

Executive Summary

This Paper looks at the long-term, aggregate trends in Canada's economic relations with different regions of the world. An annex describes some of the limitations of Canada's international economic statistics.

Canadian exporters have kept a fairly steady share of the world export market over the past twenty years. However, the United States and the Asia-Pacific region have become increasingly important destinations for Canadian merchandise exports, while Europe has declined significantly in importance.

Foreign investment in Canada has grown markedly since the early 1980s. However, the majority of this investment comprises portfolio holdings in debt securities issued by Canadian governments instead of direct investment in the Canadian private sector. Most foreign portfolio investment has come from the United States and from Europe, particularly the U.K.. Japanese investment grew rapidly in the latter part of the 1980s but has fallen somewhat in recent years.

Foreign direct investment in Canadian industry has grown, but is smaller than the portfolio holdings described above. Also, the proportion of total world direct investment in Canada has fallen since the early 1980s. Although U.S. direct investment in Canada continues to grow and still comprises the largest share, the U.S. share of total foreign direct investment in Canada has been steadily declining as European and, to a certain extent, Japanese investments take larger stakes.

The trend for sources of foreign technology used by Canadians matches, with one important exception, direct investment trends. The U.S. is by far the most important source of technology for Canada, although European sources have become somewhat more important, primarily through the activity undertaken by their affiliates in Canada rather than through direct licensing of patents or trademarks. There appears to be almost no Japanese industrial R and D spending in Canada.

Canadian direct and portfolio investment abroad has grown rapidly. Although this investment has increased in Europe, particularly the U.K., the Asia-Pacific region and Latin America, the U.S. still takes the largest share of both portfolio and direct Canadian investment. Most Canadian portfolio investment abroad is in stocks rather than bonds and other debt securities.

Although Canadian business services exports have grown more rapidly than Canadian merchandise exports, business services exports are still small compared to merchandise exports. The pattern of business services exports roughly follows the