

The finance and insurance sector accounted for approximately 33 percent of CDIA in 1998; the energy and metallic minerals areas accounted for 23 percent; services and retailing for 11 percent; and the remainder was widely diversified in other industrial sectors. Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. For example, outward investment in the metals and minerals sector results in domestic sales of machinery and equipment, as well as of engineering, architectural and environmental services.

Foreign Direct Investment in Canada

The benefits of investment flows are now well-recognized, and countries compete aggressively to attract inward investment. Inward FDI in Canada is an important source of jobs and economic growth. FDI provides capital, new ideas, new technologies and innovative business practices.

In 1998, the United States accounted for \$147 billion or 68 percent of FDI in Canada (down from a high of 75 percent in 1985). The European Union represented \$45 billion or 19 percent of FDI in Canada. Other significant investors included Japan (\$8.1 billion), Hong Kong (\$3.4 billion), Caribbean countries (\$2.8 billion) and Bermuda (\$1.7 billion). FDI in Canada was well-diversified across industrial sectors. Major recipient sectors included finance (19 percent), energy and metals (18 percent), machinery and transportation equipment (14 percent), services and retailing (10 percent) and wood and paper (8 percent). The remaining 31 percent was widely diversified across other sectors.

CANADA'S INTERNATIONAL INVESTMENT AGENDA

Investment rules play an important role in protecting and facilitating the foreign investment activities of Canadian firms. Formally agreed international rules, through integrated trade agreements or investment treaties, can be particularly important for smaller economies like Canada, which do not have the same leverage as larger players such as the United States and the European Union. Investment rules such as those within the NAFTA and Foreign Investment

Protection Agreements (FIPAs) inform Canadian investors about the rules of the game in foreign markets through basic commitments to transparency and predictability, thus promoting clear procedures, fewer delays and greater consistency in legal and policy regimes. Rules offer a greater measure of security for investors through assurances that national policies will not be unduly changed or applied in a discriminatory manner. Rules also provide a measure of enhanced market access and a basis for future liberalization initiatives.

Recent work undertaken by the business community indicates that Canadian firms continue to encounter investment barriers abroad. These barriers relate to investment prohibitions, restrictions on the scope of business activity, performance requirements, investment authorizations, residency requirements and restrictions on the movement of business people. Difficulties tend to be most frequently raised with respect to Africa, South America, China and Russia.

Investment agreements do not restrict a country's ability to regulate in the public interest. Foreign investors in Canada (and Canadian investors in foreign markets) must abide by the domestic laws of the host country and obey the same rules as nationals. Foreign investors are in no way exempt from the domestic laws of the country playing host to their investment, including, for example, domestic competition laws or regulations relating to health, labour or the environment. Similarly, foreign investors in Canada are required to obey the same Canadian laws that Canada's own domestic investors must obey.

Canada has a relatively open investment regime which compares well internationally. Larger foreign investment transactions, and those in certain sensitive sectors such as culture, are reviewed by Industry Canada to ensure that they are of net benefit. Remaining investment restrictions in Canada lie largely in the services sector, for example, financial services, telecommunications and transportation. Canada has long been a supporter of a rules-based (rather than power-based) approach to international trade and investment, with the objective of bringing the investment regimes in other countries to Canada's level of openness.