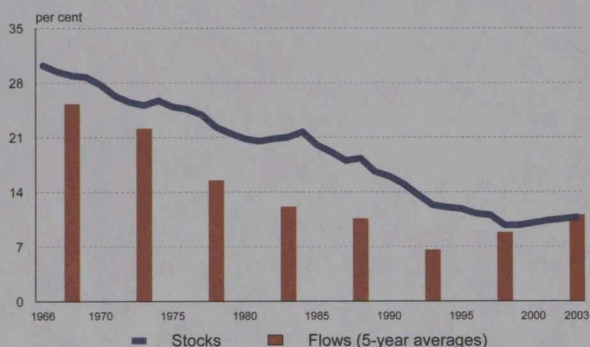


Canada's Share of  
U.S. Outward FDI Stocks and Flows



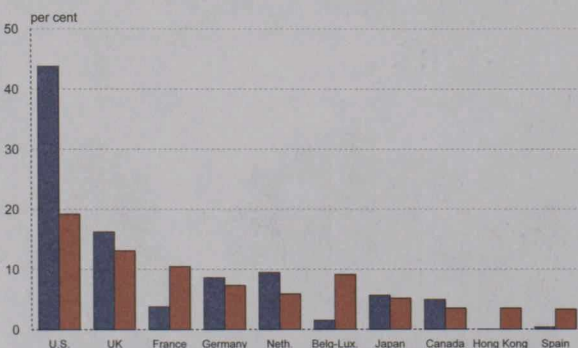
Data: U.S. Bureau of Economic Analysis

Canadian Inward FDI Flows  
as a share of U.S. Inward Flows



Data: World Investment Report

Share of Global Outward FDI Flows



Data: World Investment Report

a decline in the Canada's relative attractiveness for U.S. investment. However, it could be argued that the U.S. was investing disproportionately more in Canada than Canada's economic size would have suggested prior to the 1980s and this fall in Canada's share of U.S. outward FDI was to be expected as alternate destinations for FDI emerged.

In 1966, the first year for which data are available, just under one-third of all U.S. outward investment was located in Canada. The flow figures match the stock figures closely, with Canada accounting for a much higher share of U.S. outward FDI than Canada's share of global GDP, even excluding the U.S., would warrant. Canada's share of U.S. outward FDI fell steadily until the 1990s, as one would expect, reversing first for flows, before being reflected in the stock figures.

The second reason for the drop in Canada's share of global inward FDI flows in the 1980s was the emergence of new global investors for whom Canada was a less significant investment location. In 1970, the U.S. accounted for more than half of all outward FDI flows, and as already mentioned, a disproportionately large portion of this went to Canada. By 2003, their share had fallen to less than one-quarter, not because of a decline in U.S. outward investment but instead due to a rise in the importance of other investors. To illustrate this point, prior to 1975, Canada consistently received more FDI than did the U.S., an economy more than ten times the size of the Canadian economy.<sup>4</sup> With the emergence of new global investors in the early 1980s, Canada's share of North America-bound inward FDI flows has fallen more in line with the relative size of the two economies, although Canada's share remains slightly above what a gravity model of FDI flows would suggest and has been rising slowly since.

The third possible contributor to the recorded fall in Canada's share of global inward FDI may have been Canadian economic policies in the late 1970s and early 1980s, specifically the National Energy Program (NEP) and the Foreign Investment Review Act (FIRA). As well, the general view toward FDI by many policy makers in Canada at the time may have contributed to the rapidness of the decline in Canada's share of global FDI flows.<sup>5</sup>

<sup>4</sup>U.S. investment in itself is by definition not considered FDI, but is when it is invested in Canada.

<sup>5</sup>Hejazi, Walid and Safarian, A.E. "Explaining Canada's Changing FDI Patterns" Paper delivered to Canadian Economic Association Conference 2003 and Shapiro, Daniel and Globerman, Steven "Foreign Investment Policies and Capital Flows in Canada: A Sectoral Analysis" Journal of Business Research, Vol. 56, 2003.