

Overview of Canada's Investment Performance

The ebb and flow of regional economic prospects is reflected by the movements of capital around the world. On the global scale, investment is increasingly being directed toward Asia, Latin America, and Africa. These are precisely the areas where Canadian investors have been concentrating their efforts, as direct investment flows to the non-OECD rest of the world increased and stocks of direct investment with these areas were on the rise. At the same time, ongoing problems and weak outlook for many European nations has reduced the attractiveness of that region and Canadian investors have responded by divesting from that area.

The prudent macroeconomic and fiscal stewardship in Canada going into and coming out of the recession is a positive in the eyes of investors. That, coupled with Canada's relatively strong economic outlook among the developed economies, has made Canada an attractive place to invest. Accordingly, investment into Canada was on the rise in 2010, led by North American and Asian investors.

Global Foreign Direct Investment Flows

Global inflows of foreign direct investment (FDI) were stagnant in 2010, rising marginally from US\$1,114 billion in 2009 to almost US\$1,122 billion in 2010, according to the United Nations Conference on Trade and Development (UNCTAD) (Table 6-1).¹ A

strong rebound in FDI flows to developing Asia and Latin America offset declines in inflows to developed countries.

The source of funding also shifted as increased profits of foreign affiliates, especially in developing countries, boosted reinvested earnings, while the uncertainties surrounding global currency markets and European sovereign debt resulted in negative intracompany loans and lower equity investments. Moreover, cross-border mergers and acquisitions (M&As) increased by 37 percent in 2010, while international greenfield projects fell both in number and in value.

The year was marked by a drop in flows during the second quarter, a rebound in the third quarter, and a flat fourth quarter. Moreover, the pattern of investment inflows was uneven among regions. In particular, FDI inflows to developed countries contracted further in 2010, while those to developing and transition economies recovered, surpassing the 50-percent mark of global FDI flows for the first time.

FDI inflows to the developed countries fell 6.9 percent to US\$526.6 billion. This was in spite of a 43-percent surge in FDI in the United States. At US\$56.2 billion, this was the single biggest increase in FDI among the major economic regions.

FDI to European nations fell most sharply, down 19.9 percent (US\$72.1 billion) to the EU and 21.9 percent (US\$83.0 billion) to the continent as a whole. The Netherlands and Luxembourg saw significant

¹ Global FDI inflows data taken from UNCTAD's *Global Investment Trends Monitor No. 5*, January 17, 2011.