



most popular destination for Canadian direct investment abroad. The Netherlands and France experienced the steepest declines in CDIA, falling by 19 per cent and 14 per cent, respectively. However, these countries are still popular for Canadian direct investors abroad. France, Ireland, the Netherlands and United Kingdom were the only European nations to make it to top 10 destinations for Canadian direct investment abroad at the end of 2005.

Canadians continued to invest in the tax-friendly jurisdictions of Barbados (\$34.7 billion), Bermuda (\$13.6 billion) and the Cayman Islands (\$11 billion). These three small countries witnessed the highest average growth in CDIA over the period 1995-2005.

Brazil was the newcomer among the top 10 destinations, with CDIA in that country increasing by 14.8 per cent to \$8.0 billion, while Japan dropped from the 10 most popular destinations for CDIA.

Among industries, as of the end of 2005, Canadian foreign direct investment assets were mainly in the finance and insurance industry (44 per cent), in the energy industry (12 per cent), in the services and retailing (12 per cent), and in the metallic minerals industry (11 per cent). The share of Canadian direct investment in finance and insurance sector has doubled in the past two decades while the share of the metallic minerals sector decreased from 17 per cent to 11 per cent.

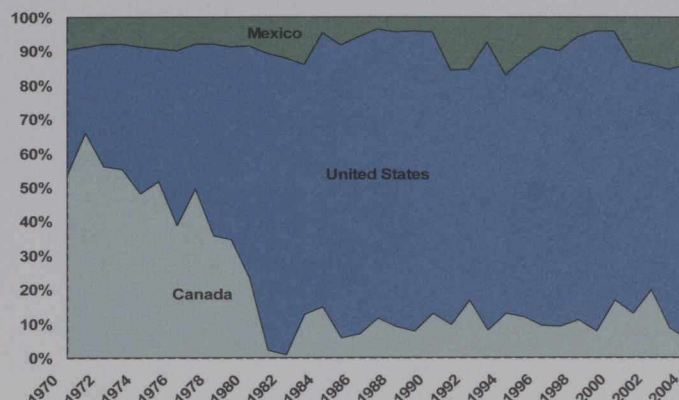
Canada's Performance in the North American Context

Despite an increase in absolute levels of direct investment, Canada's share of North American inward FDI declined over the last decade, raising concerns about Canada's attractiveness as an investment location.

Between 1982 and 2004, Canada accounted for 10.5 per cent of North American inflows (including intra North American FDI flows). This share was down from an astonishing 46.6 per cent over the period 1970-1980.

As a result of lower inflows, Canada's share of North American FDI stock also declined. Between 1980 and 2004, Canada's share of North American inward FDI stock declined by 24.5 percentage points, from 40 per cent in 1980 to 15.5 per cent in 2004. Canada's

Figure 5-5
Distribution of Inward FDI Flows to North America



Source: Statistics Canada

Figure 5-6
Canada's Share of North American FDI Stock



Source: UNCTAD

declining share of North American FDI stock is mostly the result of its very high level of inflows in the 1960s and 1970s, not its recent performance. Indeed, Canada's share has been rising since 2000. Canada's share of North American inflows has, in fact been quite constant over the last two decades.

The ratio of inward FDI stock-to-GDP, an indicator of Canada's "openness" or orientation toward foreign investment, was 30.5 per cent in 2004. This ranks Canada as the second highest in the G-7 after the U.K. (36.3 per cent). That ratio stood at only 12.6 per cent for the U.S. and at 2.1 per cent for Japan (the lowest among the G-7 countries).