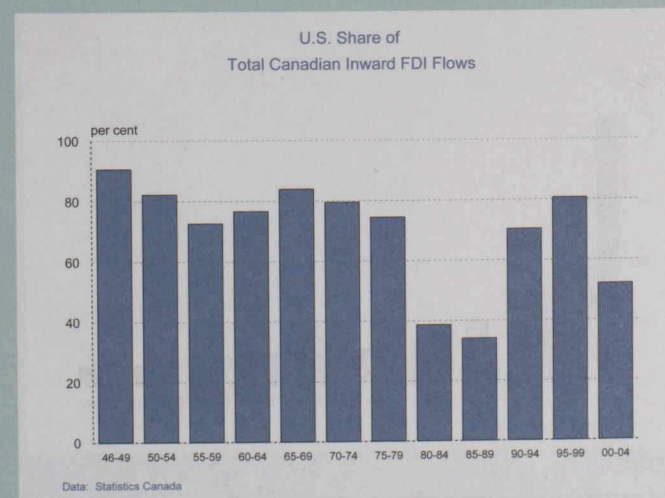
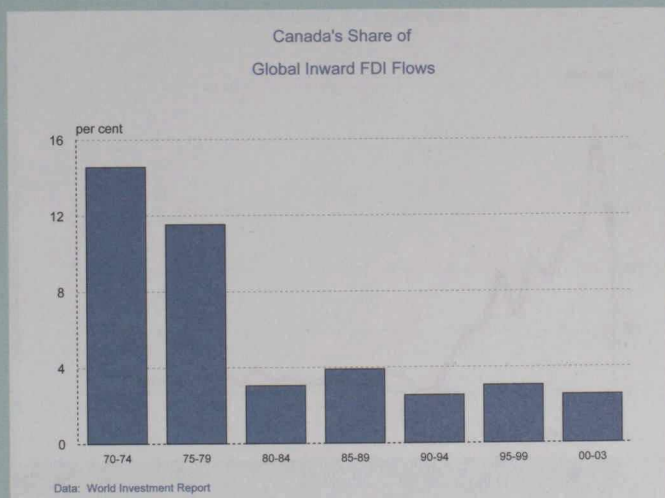
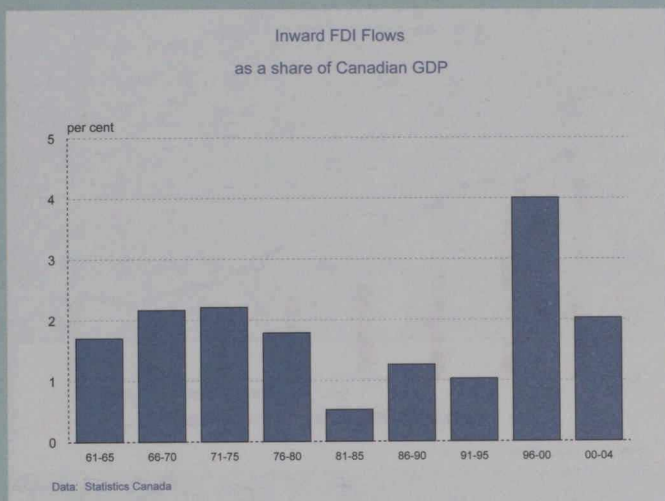


until the early 1990s, and then accelerating until 2000. FDI flows show a somewhat similar, but more muted trend. FDI inflows as a share of Canadian GDP fluctuated between a range of one-and-a-half and three-and-a-half per cent of GDP for the 1960s and 1970s and between zero and two per cent until 1997.<sup>3</sup> A global merger and acquisition (M&A) boom propelled FDI inflows above three per cent of GDP between 1998 and 2001 with a sharp peak of 9.2 per cent in 2000 before falling off to more historic levels in the post 2000 period.

While Canada's share of global inward FDI stocks shows a steadily declining trend since 1980, the picture from the perspective of direct investment flows is substantially different. Canada's share of global inward FDI flows declined sharply after the 1970s but has remained relatively stable, in the two to four per cent range, for the two decades since. This substantial difference in trends between Canada's share of global inward FDI stocks and global inward FDI flows is easy to reconcile. The observed downward trend in Canada's share of global inward FDI stocks is simply the long and slow adjustment to the fall in Canada's share of global inward FDI flows in the early 1980s. For those interested in tracking Canada's relative attractiveness as a destination for global inward FDI, the amount of FDI invested in Canada from year to year is clearly the more appropriate measure to use.

There are three explanatory reasons for the sudden drop-off in Canada's share of global inward FDI flows. First, inflows from the U.S., the single largest foreign investor in Canada, declined in the early 1980s. For the previous three decades, the U.S. accounted for, on average, well above 70 per cent of Canadian FDI inflows. In the 1980s, their share averaged about half of that, at just above 35 per cent.

The drop in U.S. FDI going to Canada in the 1980s is the result of an overall decline in U.S. outward investment as well as a gradual decline in the share destined for Canada. The over-all decline in U.S. outward FDI in the early 1980s was likely a result of the slowdown in the U.S. economy in those years. The steady decline in Canada's share of U.S. outward FDI, on the other hand, could potentially be interpreted as



<sup>3</sup>Because inflows are more volatile than stocks, they are presented as averages over 5 year periods as data permits.