



3. INVESTMENT

Canada's economic performance is increasingly linked to international trade and investment. The opening of global markets to Canadian goods and services in the past several decades has served as one of the main engines of growth for our economy. In concert and closely connected with these developments, Canadian investment abroad and foreign direct investment in Canada have become principal sources of growth and job creation. A transparent, positive and secure environment for international investment, both in Canada and abroad, is crucial to our continued economic growth and job creation.

Canada's outward investment has grown rapidly, particularly in the last decade. In the period from 1986 to 1996, Canadian direct investment abroad climbed from \$64.7 billion to \$170.8 billion. These figures show that Canadian companies increasingly invest in other markets through the establishment of new enterprises, or through mergers, acquisitions, partnerships, joint ventures and strategic alliances with other firms. Their objectives are clear: to increase the competitiveness of their operations; to penetrate new markets; and to acquire new technologies, resources and skills. Such investment abroad brings concrete benefits to Canada in terms of export opportunities and access to competitive inputs and R&D activities, leading to job creation back home in Canada.

The United States is Canada's most important investment partner, accounting for over 50% of total outward direct investment, followed by the United Kingdom. Although the United States and the United Kingdom remain important investment partners, Canada's investment relationship is diversifying toward other EU countries and non-OECD members. The effort by Canadian businesses to diversify their global operations is a driving force behind these changes.

Intra-firm trade (e.g. trade between a Canadian business and its foreign affiliates) is a concrete example of the outcome of decisions to invest abroad.

The United Nations Conference on Trade and Development (UNCTAD) recently estimated that over one third of international trade in the global market for manufactured goods is undertaken between parent firms and their foreign subsidiaries. This relationship is particularly evident in intra-firm trade between Canada and the United States. It has been estimated recently that about 46% of Canadian exports to the United States are intra-firm in nature, as well as about 49% of U.S. exports to Canada.