



and education systems are cornerstones to our high quality of life. Canada remains an attractive location for foreign investment. Following more than a decade of high deficits and inflation, Canada's inflation rate is now one of the lowest in the world and a balanced budget has been attained. The World Economic Forum currently ranks Canada fourth in the world for international competitiveness, compared to 20th in 1994, while the Economist Intelligence Unit places Canada's business environment over the next five years as third out of 58 countries.

These Canadian advantages have not been gained by compromising our overriding economic and social values. Foreign investors in Canada are subject to the same laws and regulations as are Canadian investors, including those aimed at protecting the environment, and those ensuring the highest labour, health, building and safety standards.

But investment is not a one way street. One of the most significant features of Canada's recent economic history has been the rapid growth of Canadian investment abroad. The value of this investment more than tripled between 1985 and 1997, from \$57.2 billion to \$194 billion, and in 1997, for the second consecutive year, direct investment abroad by Canadian business overtook foreign investment in Canada.

Direct investment abroad by Canadian business is part of its strategic effort to increase market share and stay competitive in foreign markets. Companies are increasingly using outward investment to strengthen their operations, penetrate new markets and acquire new technologies, resources and skills. Evidence suggests that this type of investment does not precipitate an "export of jobs" but rather results in increased sales and production from home facilities. For example, a study undertaken by the United Nations Conference on Trade and Development estimates that over one third of the global trade in manufactured goods is undertaken between parent firms and their foreign subsidiaries.

Additional research has shown that the growth, productivity and profits of Canadian firms involved in global markets has been superior to the performance of domestically-oriented firms. We have also seen that income from Canada's outward foreign direct investments increased sharply during recent years, helping to improve our standard of living. The growth of Canadian investment abroad has lead to an increase

in exports, which has directly affected Canada's economic health.

The United States is Canada's most important investment partner, accounting for over 50 percent of total outward direct investment, followed by the United Kingdom and other European Union countries. However, the efforts by Canadian businesses to diversify their global operations have resulted in a rapid development of investment relationships with many other countries worldwide, particularly in Latin America and the Pacific Rim. Over 20 percent of Canadian foreign direct investment is now in developing countries and is expected to lead to an increase in Canadian exports to these countries.

The growth in foreign investment by Canadian business has increased the demand for improved access and greater protection for Canadian investments. However, international rules, which are essential tools in providing a stable, transparent and open environment for these international investment flows, are still in the development stage. Such rules are currently being formulated at the bilateral, regional and multilateral levels, as described below. However, there is no single set of comprehensive rules at this time.

CANADA'S MULTI-TRACK INVESTMENT POLICY APPROACH

The Government's policy initiatives in the area of international investment focus on providing both an attractive environment for inward investment, as well as access, transparency and protection for Canadian investors abroad.

Bilateral Initiatives

Canada is currently pursuing a full program of negotiations on Foreign Investment Protection Agreements (FIPAs). FIPAs are bilateral, reciprocal agreements designed to protect and promote foreign investment through legally-binding rights and obligations. A FIPA is Canada's version of what is more commonly known as a Bilateral Investment Treaty.

FIPAs are targeted toward ensuring access and protection for Canadian investment in developing countries where a commitment to clear, predictable and non-discriminatory treatment for foreign investment is still very much evolving. A FIPA serves to provide an assurance to investors that the rules