In 1999, 52 percent ($134 billion) of Canadian direct investment abroad was located in the United States. A further 19 percent of Canadian direct investment abroad ($48.9 billion) was based in the European Union. Other major Canadian investment locations include the Caribbean, Latin America and Japan. Similar to global trends, developing countries are becoming increasingly important destinations for Canadian direct investment abroad. In 1988, 14 percent of Canada's outward investment went to developing countries. By 1999, that percentage had increased to approximately 24 percent ($62 billion).

The finance and insurance sectors accounted for approximately 33 percent of Canadian direct investment abroad in 1999; the energy and metallic minerals areas accounted for 21 percent; services and retailing for 13 percent; and the remainder was widely diversified in other industrial sectors. Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. For example, outward investment in the metals and minerals sector results in domestic sales of machinery and equipment, as well as of engineering, architectural and environmental services.

Foreign Direct Investment in Canada

The benefits of investment flows are now well-recognized, and countries compete aggressively to attract inward investment. Inward foreign direct investment in Canada is an important source of jobs and economic growth. Foreign direct investment provides capital, new ideas, new technologies and innovative business practices.

In 1999, the United States accounted for $173 billion or 72 percent of foreign direct investment in Canada. The European Union represented $45.2 billion or 18.8 percent of foreign direct investment in Canada. Other significant investors included Japan ($6.3 billion), Hong Kong ($3.1 billion) and the Caribbean countries ($2.7 billion). Foreign direct investment in Canada was well-diversified across industrial sectors. Major recipient sectors included finance (21 percent), energy and metals (16 percent), machinery and transportation equipment (11 percent), services and retailing (8 percent) and wood and paper (8 percent). The remaining 36 percent was widely diversified across other sectors.

Canada's International Investment Agenda

Investment rules play an important role in protecting and facilitating the foreign investment activities of Canadian firms. Formally agreed international rules, through integrated trade agreements or investment treaties, can be particularly important for smaller economies like Canada, which do not have the same leverage as larger players such as the United States and the European Union. Investment rules such as those within the NAFTA and Foreign Investment Protection Agreements (FIPAs) inform Canadian investors about the rules of the game in foreign markets through basic commitments to transparency and predictability, thus promoting clear procedures, fewer delays and greater consistency in legal and policy regimes. Rules offer a greater measure of security for investors through assurances that national policies will not be unduly changed or applied in a discriminatory manner. Rules also provide a measure of enhanced market access and a basis for future liberalization initiatives. Canadian firms can mitigate their exposure when making foreign investment in risky regions by purchasing political risk insurance. In addition to commercial insurers, political risk insurance is available from the Export Development Corporation's Web site at *www.edc-see.ca*

Canadian firms continue to encounter investment barriers abroad, including investment prohibitions, restrictions on the scope of business activity, performance requirements, investment authorizations, residency requirements and restrictions on the movement of business people. Difficulties tend to be most frequently raised with respect to Africa, South America, China and Russia.

Investment agreements do not restrict a country's ability to regulate in the public interest. Foreign investors in Canada (and Canadian investors in foreign markets) must abide by the domestic laws of the host country and obey the same rules as nationals. Foreign investors are in no way exempt from the domestic laws of the country playing host to their investment, including, for example, domestic competition laws or regulations relating to health, labour or the environment. Similarly, foreign investors in Canada are required to obey the same Canadian laws that Canada's own domestic investors must obey.