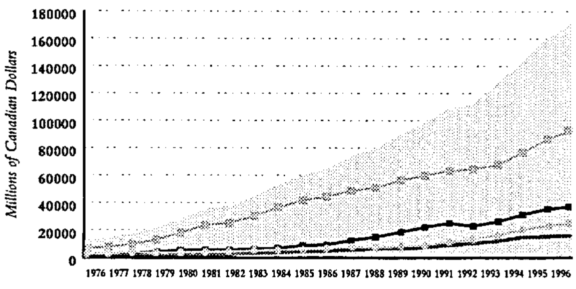
Figure 4

CANADIAN DIRECT INVESTMENT ABROAD



Source: Statistics Canada

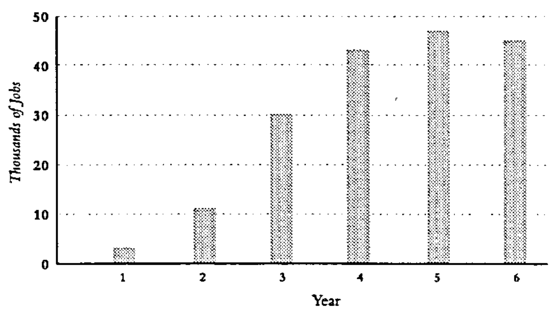
Importance of Investment: Inward and Outward

Investment, both inward and outward, plays a vital role in ensuring Canada's prosperity. The stock of Canadian direct investment abroad has grown rapidly, from $12.1 billion in 1976 to $170.8 billion in 1996 (see Figure 4). Successful investment abroad brings profits home, and improves access for exports to foreign markets, creating wealth and economic activity in Canada.

Foreign investment in Canada has also grown significantly, from a total of $41.6 billion in 1976 to $180.4 billion in 1996. Such investment brings in foreign technology and facilitates the diffusion of knowledge to Canadian firms and workers, thus enhancing productivity in Canada. These investments also create jobs in Canada (a recent Industry Canada study indicates that a $1-billion increase in new inward foreign direct investment (FDI) to Canada generates approximately 45 000 jobs over a five-year period), (see Figure 5).

Figure 5

JOBS IMPACT OF $1 BILLION IN FOREIGN DIRECT INVESTMENT IN CANADA



Sources: DFAIT, Statistics Canada and a study commissioned by Industry Canada

The Changing Nature of Trade and Investment Barriers

Many types of barriers prevent Canadian traders and investors from taking advantage of opportunities in foreign markets. Perhaps the best-known is the tariff, a tax on imports. While tariff walls continue to limit access to several markets, international negotiations have successfully reduced tariff levels. Average industrial tariffs in developed countries have fallen from approximately 40% in 1948 to less than 5% in 1998. In 1996, the average import-weighted tariff was 3.7% in the United States; 6.6% in the European Union and 3.5% in Japan.

As tariffs are lowered, the extent to which non-tariff barriers (NTBs) impede the flow of goods and services, increases, at least in relative terms. Examples of NTBs commonly affecting Canadian exports include technical barriers to trade (TBTs), such as standards and labelling requirements; and sanitary and phytosanitary (SPS) measures, such as quarantine and health and safety requirements. Reflecting the changing nature of barriers to trade, negotiations to liberalize trade are focussing increasingly on reducing or eliminating unjustified NTBs, in addition to seeking to reduce tariffs wherever possible.

Investment barriers can also take a number of forms. These barriers usually focus on restricting the right of a foreign investor to establish a business or investment in a host economy. Restrictions on operations and management following the establishment of an investment are also identified as barriers to investment. Investment restrictions currently implemented by our trading partners include ownership restrictions, investment screening, performance requirements, restrictions on the transfer of funds, discriminatory treatment with regard to operations or management (e.g. domestic licensing) and restrictions on the movement of key personnel.