

INVESTMENT

The NAFTA has contributed to enhancing Canada's attractiveness to foreign investors while providing more opportunities for Canadians to invest in NAFTA partners' economies. The Agreement's provisions ensure greater certainty and stability for investment decisions by guaranteeing fair, transparent and non-discriminatory treatment of investors and their investments throughout the free trade area. The NAFTA's contribution to increased productivity — through more competition and better-priced inputs — has also prompted greater capital investment in Canada. Total foreign direct investment (FDI) in Canada increased by 8.7 percent in 1994, 9.3 percent in 1995, and 7.4 percent for a total of \$180 billion in 1996.

There have been notable investment gains in financial services, transportation equipment, automobile equipment, chemicals, energy, communications, and food and beverages. Statistics Canada reports that, in 1996, Canada was the world's third-largest recipient of direct investment by foreign multinational companies, which accounted for \$12.0 billion of direct investment from a wide variety of sources. Foreign investors financed a significant portion of their investment through reinvested Canadian profits, benefitting all Canadians. At the end of 1996, 87 percent of FDI was in Canadian subsidiaries.

The United States remains the largest foreign investor in Canada. The stock of direct investment from the United States increased for the fourth straight year, by 9.1 percent in 1996 to \$122.7 billion, representing 68 percent of total foreign direct investment in Canada.

The United States also remained the largest destination for Canadian direct investment with a total of \$92.9 billion invested abroad, an increase of 7.5 percent in 1996. This represents 54 percent of all Canadian outward investment, an historically low, but relatively stable figure in the last four years.

The signing of the NAFTA has meant more dramatic increases in capital flows between Canada and Mexico. Total Canadian investment in Mexico more than doubled between 1993 and 1994 to \$1.07 billion, decreasing slightly to \$919 million in 1995, before increasing rapidly in 1996 to \$1.3 billion. This made Canada one of the most important sources of new investment in Mexico in 1996. Current Canadian investment in Mexico is concentrated in mining, banking and telecommunications. Further potential exists in sectors such as gas and energy. Mexican investment in Canada is growing, but remains very small.

The increased FDI into Canada since the early 1990s has also had an important