

increase in EU holdings of Canadian assets. The third column represents the balance of these net FDI flows, a positive figure indicating greater FDI by EU entities in Canada than Canadian entities have invested in the EU. None of the figures show any discernable trend, with erratic changes in the statistics year on year. This is usual for FDI data, which can vary greatly according to the international strategies adopted by various MNEs or groups of MNEs. It is apparent from the table, though, that during the 1980s, a large amount of EU FDI arrived in Canada, particularly from the UK, which largely confirms the anecdotal evidence at the time, when many British MNEs reportedly decided to initiate some kind of market presence in the North America. This surge in FDI to Canada has not continued apace in the 1990s, as media reports suggest that many EU MNEs have decided to use the US as their principal North American base for production and distribution to the NAFTA member countries. In the 1990s the data also suggests that Canadian MNEs have sought to exploit the advantages of the single market, the opportunities that have arisen in a unified Germany and the favourable trading agreements that have been established for EU companies to trade with the newly emerging Eastern European economies (see Greenaway (1993) for an analysis of the effects of the single market on EU incoming FDI).

The final column in the table shows that the net flows in FDI between Canada and the EU seem to be largely in the same direction as the total transatlantic capital flows (in simple terms net FDI plus changes in Canadian and EU capital market portfolios plus net changes in official reserves). These figures might suggest that the return on capital market financial instruments largely reflects the return on FDI. Classical economic theory would tend to suggest that investment should flow to the nation with the highest marginal rate of return on physical capital, but in fact research by van Nieuwkirk and Sparling (1995) suggests that average rates of return on Dutch investment in the US or Japan during the period 1986-1990 was 6.3 percent compared with 10.5 percent in Canada or Mexico and 7.7 percent in the rest of the EU. Graham (1996) suggests that although these rates are average rates rather than marginal rates, they should approximate the marginal rates fairly well, and if a similar calculation is done for US FDI abroad over the same time period, then FDI in Canada would yield an average rate of return of 9.3 percent versus an average rate of return of 15.1 percent in the EU and 13.9 percent in Japan. Clearly the relative transatlantic FDI flows cannot be explained by differential rates of return, and other factors must predominate. It is therefore somewhat surprising to note that the direction of the pattern of FDI net flows largely mirrors the balance on the capital account of the Canadian balance of payments as financial capital flows are, in theory, sensitive to real rates of return.