

BOX E: CANADA'S DECLINING SHARE OF GLOBAL INWARD FDI: MYTH OR REALITY?

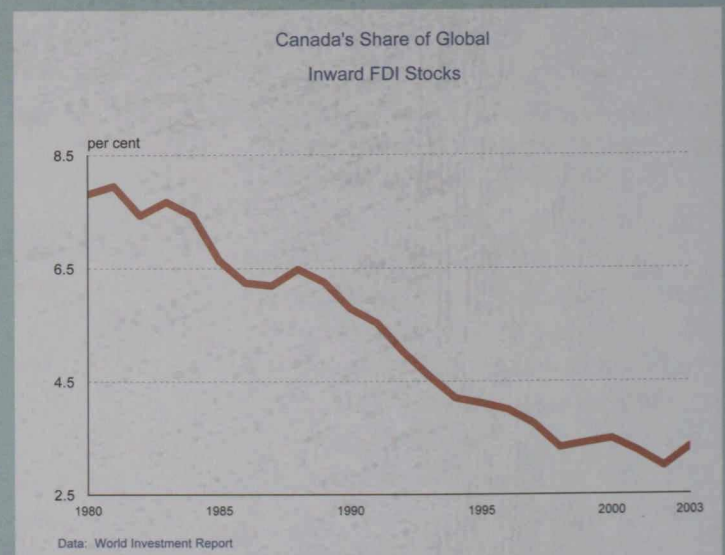
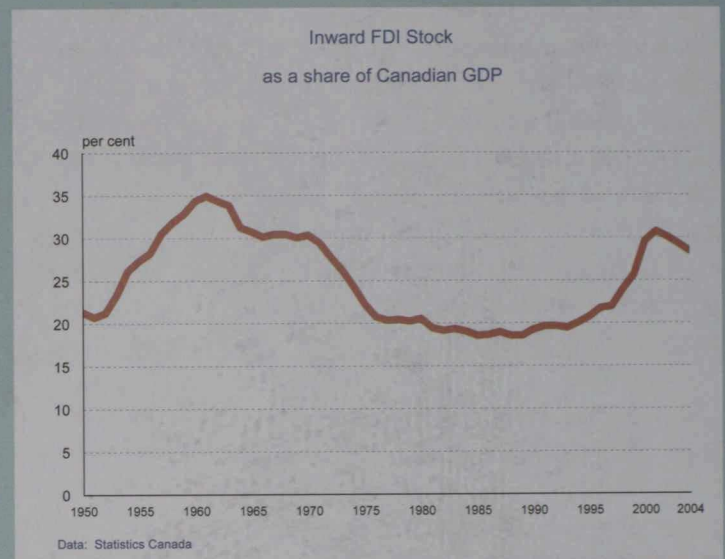
In recent years, the reported decline in Canada's share of inward FDI has generated concern amongst many observers both for the lost benefits as well as for the underlying causes of the decline.¹ In this box, we argue that FDI stock measures, which show Canada as having a declining share of global inward FDI, are not the appropriate measure and when flows, the more accurate measure is used, neither Canada's declining share of global inward FDI nor the underlying assumption by some that Canada has become a less attractive destination for global investment appear to hold.

Inward FDI stocks peaked as a share of the Canadian economy in 1961 at 35.0 per cent of GDP. From that point until 1989 they fell sharply, particularly over the mid 1970s. The early 1990s witnessed a turn-around in this trend and the share rose substantially, from 19.5 per cent in 1993 to 30.8 per cent in 2001, just 4.2 percentage points below the 1961 peak. It has subsequently fallen-off again in recent years, to stand at 28.4 per cent in 2004.

Since 1980, when data on international FDI stocks were first collected, other countries have seen their stocks of inward FDI expand faster than Canada, resulting in the Canadian share of global inward FDI stocks falling steadily from 7.8 per cent in 1980 to 3.0 per cent in 2002, a trend that has led some to conclude that Canada has become a less attractive destination for international direct investment. In 2003, Canada's share increased somewhat to 3.3 per cent.

This above analysis is based on FDI stocks. However, FDI can be measured as either a stock or a flow. Stocks measure the value of all investments on the books of the foreign enterprise while a flow is the market value of the investment made in a given time period.²

FDI stocks, as a share of GDP, showed a clear trend in Canada: peaking in the early 1960s, declining



¹For example, the Conference Board of Canada's annual Performance and Potential report for 2004, identifies Canada's declining share of global inward FDI as potentially contributing to the Canada-U.S. productivity gap. Similarly, in an article entitled "As direct foreign investment wanes, Canada's search for new deals grows" by Jeff Sanford appearing in the March 31st issue of Canadian Business also notes Canada's declining share of global inward FDI and links this to Canada becoming a relatively less attractive global investment location. International Investment Position" Statistics Canada Cat. No. 67-202-XPB for a detailed description of the differences between FDI stocks and flows.

²The stock value, in some respect, is a summation of all previous flows adjusted for changes in ownership, and adjustments to its book value as a result of depreciation or other revaluations. Please see "Canada's