



3. **Investment**

Foreign investment flows worldwide have grown rapidly in recent years and have figured prominently in the trend toward global economic integration. The global stock of foreign direct investment (FDI) has increased more than six-fold over the past two decades, from US\$524 billion in 1980 to US\$1.1 trillion in 2000.

Canada is an active player in this global economy. Canadian direct investment abroad (CDIA) has more than tripled from \$74 billion in 1987 to \$257 billion in 1999. Over the same period, foreign direct investment in Canada has doubled, from \$106 billion in 1987 to \$240 billion. Since 1996, the stock of Canadian direct investment abroad has surpassed the stock of foreign direct investment in Canada.

CANADIAN DIRECT INVESTMENT ABROAD

Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. Studies have shown that outward foreign direct investment has been observed to stimulate increased exports from home (investing) countries. In at least one analysis, it was found that each dollar of outward foreign direct investment is associated with some two dollars of additional exports. Canadian firms increasingly recognize that investing abroad is a prerequisite to ensuring their health in Canada. Through foreign investment, firms seek a host country that affords the greatest opportunity for competitiveness and economic success. Studies indicate that between 30 and 40 percent of international trade for manufactured goods is undertaken between parent firms and their foreign subsidiaries (intra-firm trade). Low levels of import penetration into foreign markets are often linked to low levels of investment by reason of investment rules favouring domestic investors.

The extensive international business activity of Canadian firms reflects the realities of an increasingly integrated world market and the need for Canadian business to participate in that integration if they are to remain competitive. Investment abroad is an essential element of business strategy, particularly in high-growth markets where a physical presence is often a prerequisite for effective access.