Canada's pattern of trade also reveals a trend toward globalization of the production processes that has enhanced trade expansion. Unlike specialization by commodity, this process breaks down production into a number of stages, with a country specializing in one or more of the stages of production. It allows one country to produce export products that use raw and intermediate goods or services imported from another country. In some cases, one product goes through several countries before the finished item is produced and the same product can also enter and exit the same country more than once as it moves through the production process. As a result, imports have been growing along with exports in recent years. An associated development that has had a major impact on trade is the rapid growth of company affiliates and subsidiaries whose commercial presence has facilitated trade in goods and services (known as intra-firm trade).

In recent years, the goods and services trade balance has improved as exports have expanded at a faster rate than imports. This trend contributed to Canada registering a surplus on its current account[3] in the first half of 2000, a reversal from its historical deficit position.

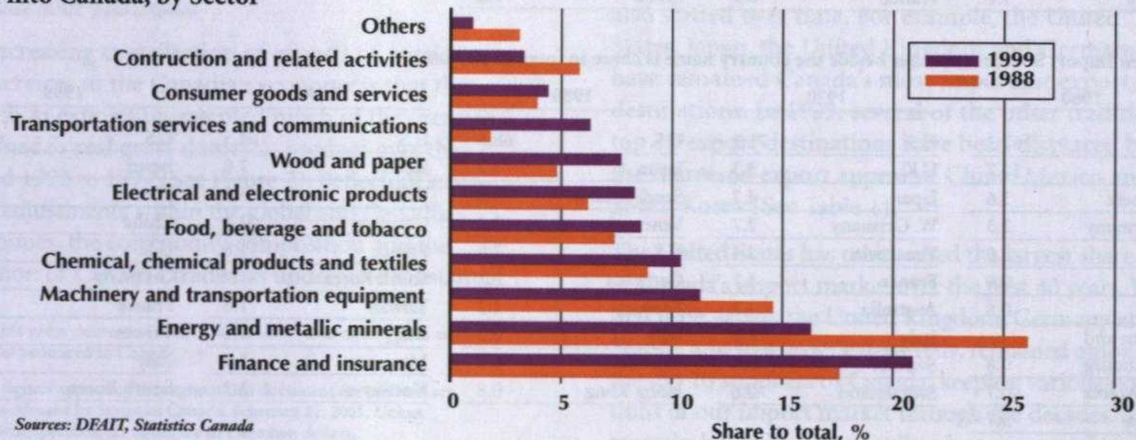
Investment Trends

As a conduit to economic growth, two-way investment flows bring concrete benefits to Canada by facilitating and accessing both to markets and to competitive inputs and R&D, which lead to transfer of knowledge, both technical and managerial, and to job creation. Investment has continued to grow, but in absolute terms. Unlike trade, the importance of foreign direct investment in Canada to our economy has declined as the ratio of foreign direct investment to Canada's gross domestic product dropped from 35 percent in 1961 to a low of 19 percent in 1990 before recovering to 25 percent by 1999. While this trend captures the evolution of investment policies set in place by the Canadian government, it also reflects the attractiveness of the country to foreign investors relative to other countries in the 1990s. In the 1970s, the Foreign Investment Review Agency (FIRA) was created to limit the high degree of foreign ownership in the Canadian natural resource and manufacturing sectors by requiring that foreign acquisitions and new foreign businesses conveyed significant benefits to Canada. In 1985, FIRA was replaced by Investment Canada within the context of a more liberal foreign investment regime. Investment Canada was also given the task of promoting foreign direct investment. With the Canada-U.S. FTA in 1989, NAFTA in 1994, inward foreign direct investment from Mexico and the United States was further liberalized.

The recovery of foreign direct investment flows in the 1990s has been accompanied by a shift in the industry pattern and sources of foreign investment into Canada. The finance and insurance industries now account for the largest share of inward investment, displacing energy and metallic minerals. The leading sector in previous decades, machinery and transportation equipment industry, is still the third largest sector in terms of share to total inward foreign direct investment, and even though investment has been moving away from this industry toward other industries such as chemicals, food, beverage and tobacco products and electronic and electrical products (See Figure 4).

[3] Canada's current account records Canada's transactions with the rest of the world, including exports and imports of goods and services, receipts and payments of investment income and transfers.

Figure 4
FDI into Canada, by Sector



Sources: DFAIT, Statistics Canada