

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 outward foreign direct investment has increased more than 10-fold over the past two decades, from US\$568 billion in 1982 to US\$6.6 trillion in 2001.

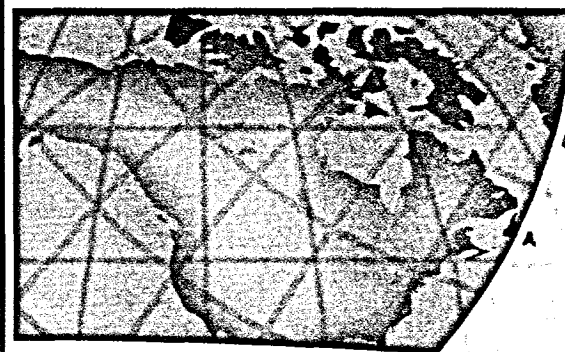
Canada is an active player in this global economy. The stock of Canadian direct investment abroad (CDIA) increased nearly fourfold from \$98.4 billion in 1990 to \$389.4 billion in 2001. Over the same period, the stock of foreign direct investment in Canada more than doubled, from \$130.9 billion to \$320.9 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. For many Canadian firms, 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. These firms understand that higher levels of investment in foreign markets are often linked to higher levels of import penetration in those markets. In fact, the OECD has found that each dollar of outward foreign direct investment is associated with some two dollars of additional exports.

In 2001, 51% (\$198.4 billion) of Canadian direct investment abroad was located in the United States. A further 20% of CDIA (\$76.5 billion) was based in the European Union. Other major Canadian investment locations include the Caribbean, Latin America and Japan. In line with global trends, developing countries are becoming increasingly important destinations for CDIA. In 1990, 13% (\$13.1 billion) of Canada's outward investment was in non-OECD developing countries. By 2001, that proportion had increased to approximately 23% (\$87.7 billion).

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With 40% of the total stock of CDIA in 2001, the finance and insurance sector continued to be the largest sector for CDIA. In 2001, significant amounts of CDIA were in the energy and metallic minerals and the machinery and transportation equipment industries, bringing their proportion of the total stock of CDIA to 19% and 5%, respectively. Outward investment in the metals and minerals sector results in higher domestic sales of machinery and equipment, as well as increased sales of engineering, architectural and environmental services. Electronics and communications also emerged as an important sector for outward Canadian investment in recent years, accounting for 13% of the total in 2001.

Foreign Direct Investment in Canada

The benefits of investment flows are now well recognized, and countries compete aggressively to attract inward investment. Inward foreign direct investment