Overview of Canada's investment performance

V

Global foreign direct investment inflows

There are a variety of methods by which external finance can enter a country; of these, Foreign Direct Investment (FDI) has the advantage of not creating debt, being comparatively non-volatile, and having returns which depend upon the performance of the projects financed. In addition, FDI can provide additional benefits through the transfer of knowledge, technology, and skills, as well as increased trade related to the investment.

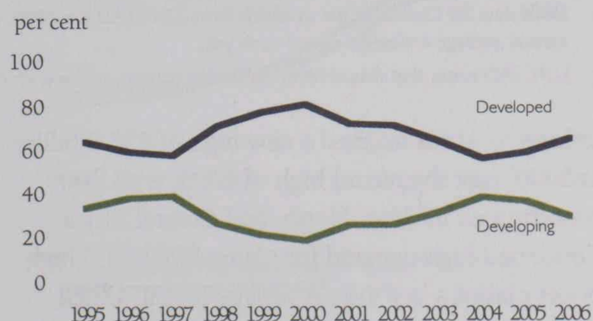
FDI has played a fundamental role in globalization. Global FDI inflows increased nearly 600 per cent between 1990 and 2000, rising from $201.6 billion USD to $1409.6 billion. The early 2000s witnessed an abrupt drop, reflecting the slowdown in the global economy as inflows fell to $557.9 billion USD by 2003—less than half the 2000 level. But recent years suggest inflows are recovering, with growth over 2004-05 of 27-29 per cent and estimated growth for 2006 at 34.3 per cent, leaving global inflows at $1230.4 billion by the end of 2006.

The rise in inward FDI flows largely reflects the strong economic growth that has continued in many parts of the world. But other factors also contributed, including the increases in corporate profits and subsequent higher stock prices, which boosted the cross-border mergers and acquisitions that form a substantial portion of FDI flows. Liberalization of trade and investment regimes also had an overall positive impact on flows as well, although certain countries in Africa and Latin America stand out as moving in the opposite direction.

This growth, however, was not evenly distributed, as developed countries took in more than double the flows to developing countries. FDI flows to developed countries rose by 47.7 per cent to US$800.7 billion in 2006, exceeding the growth of the previous two years by a sizable margin. The U.S. regained its position as the top destination for FDI flows, having been usurped by the U.K. in 2005. France and Italy saw substantial growth in their FDI inflows, as did Poland with growth over 100 per cent, but Germany actually posted a decline in new inflows of 75.1 per cent. This may be a continuation of the repatriation by foreign firms of intra-company loans that drove negative growth in 2003-04. The intra-company loans component of FDI is usually more volatile and depends on such factors as tax rates, interest rate differentials, and exchange rate changes.

FDI inflows to developing countries, meanwhile, increased much more slowly, rising only 10 per cent in 2006 versus growth of 57.0 per cent and 21.5 per cent in 2004 and 2005 respectively.

FIGURE 5-1
Developed and Developing Economies: Share of World FDI Inflows



Data: UNCTAD Investment Brief 2007 No. 1 and UNCTAD World Investment Report 2006 annex tables.