In 1996, the top 10 destinations for U.S. foreign direct investment were (in US$ billion):

1.	United Kingdom	$19.8
2.	Canada - US	$6.1 billion
3.	Netherlands	$5.3
4.	Bermuda	$3.8
5.	Australia	$3.8
6.	Ireland	$3.3
7.	Mexico	$2.8
8.	Brazil	$2.5
9.	Panama	$2.0
10.	Hong Kong	$1.8

The United States represents Canada's largest competitor for North American bound international investment. In 1996, developed countries invested US$295 billion abroad and received US$208 billion. The U.S. share of both these outward and inward flows was about US$85 billion. In 1995 these were respectively US$93.3 billion and US$60.8 billion. The latter indicates a significant one-year FDI increase in the U.S. of about US$24 billion or 40%. These investments came mostly from the European Union (67.6%), Japan (16.2%) and Canada (8.5%). This represents a doubling of Japan's share over 1995 (8.6%). The latter however was still far below its annual average share of one third of the inflows achieved during 1988-91, the period of the Japanese investment boom in the U.S. The top three sources of FDI in the U.S. during both 1995 and 1996 were Germany, U.K. and Canada. Switzerland, Sweden and Japan were the next largest investors in 1995. In 1996, these countries were respectively Japan, the Netherlands and France.

More than half of U.S. FDI outflows was financed from reinvested earnings during 1994-95, a share that has increased in recent years. This partly because the profitability of operations in the United States has reduced the need for foreign affiliates to remit earnings back to their parents and partly because foreign affiliates are using these earnings to expand their own operations abroad. The share of FDI flows from Europe into the United States accounted for by equity inflows was well below those of other major home countries. European investors relied more on intercompany loans for financing their investments in the U.S. Declining interest rates in several European countries, as well as Japan, encouraged this mode of financing. According to the 1997 UNCTAD report, FDI inflows from Canada into the U.S. over the period had the highest share of reinvested earnings.

* Customs basis, DRI World Markets Executive Overview

World's Largest Trading Relationship

Canada is a trading nation with an open economy that has long been geared towards active participation in international markets. Canada is the world's eight largest exporter of goods with a 3.8% share of the world's total exports and the ninth largest importer. Canada and the U.S. share the world's largest and most comprehensive trading relationship. This relationship is a partnership that generates economic prosperity. In 1997, two-way trade in goods between Canada and the U.S. reached C$456.3 billion – C$1.25 billion in goods cross the Canada-U.S. border each day.

The NAFTA is working and benefiting both countries. Since the implementation of the Canada - U.S. Free Trade Agreement (FTA) in 1989, two-way trade (goods and services) has almost doubled, an average annual increase of about 10%. Canada's current account balance with the U.S., which was negative between 1988 and 1993, turned positive during 1994 and recorded a C$17.1 billion surplus in 1996. Canada's exports to the U.S. support about 2.4 million jobs here.

We are each other's largest customers and biggest suppliers. 80% of Canadian exports go to the U.S. while 22% of U.S. exports are destined for Canada. U.S. purchases of Canadian exports of goods and services directly generate 38% of Canada's gross domestic product. During 1996, Canadians bought almost twice as much merchandise from the United States as did Japan, the U.S. second largest trading partner, and remained a larger market for U.S. goods than all fifteen members of the European Union combined. The province of Ontario alone buys more from the U.S. than does Japan, and exports more cars and trucks to the U.S. than does Japan.

In 1996, merchandise exports to the U.S. (i.e. excluding services) were up 7.8% over 1995. Merchandise imports, on the other hand, increased 4.7%. Overall, the merchandise trade surplus with the U.S. stood at C$40.6 billion, up from C$32.1 billion the year before. To place this surplus in perspective, the value of Canada's total merchandise exports, to all other countries combined, was C$50.1 billion. Exports of services to the U.S. increased by 8.2% in 1996 to C$22.2 billion, while imports of services from the U.S. were up 6.6% to C$30.3 billion. The significance of our bilateral trade in goods with the twelve U.S. geographic regions is covered in **Table 1** where DFAIT posts are located, several of these regions also have a Gross