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Canada has one other key advantage as an investment destination: the government's commitment to transparency. Transparency-enhancing policies underpin the stable and predictable economic environment that enables the flow of productive capital; they send a positive signal to domestic and foreign investors about the government's determination to create an investment-friendly business environment. In 2003, Transparency International's Corruption Perception Index placed Canada in the top percentile, beating out all other G8 countries in being viewed as transparent and free of corruption.

The findings of these surveys and studies confirm Canada's standing as one of the most open and attractive places in the world in which to invest. However, while the macroeconomic climate for business investment is good, some international surveys suggest that investors feel that Canada's microeconomic environment might need attention. Policy action is required to improve some aspects of the business and investment climate. Here, the Smart Border and Smart Regulation initiatives have the potential to further reduce transaction costs and make Canada a more attractive investment destination. The Government of Canada's Innovation Strategy is intended to similarly improve the investment climate for knowledge-based industries.

The government recognizes the important role that investment plays in the Canadian economy and will continue to work to ensure that Canada remains a top choice for international investors. However, the government is also aware of the need to ensure that incoming investment benefits Canada. This need is addressed through the Investment Canada Act, which provides for the review of significant investments in Canada made by non-Canadians. Under the Act, an application for review must be filed for acquisitions of control of existing Canadian businesses or establishments of new businesses in Canada that exceed a certain dollar value. In 2004, direct acquisitions of Canadian businesses by WTO members were subject to a review threshold of $237 million. For acquisitions by non-WTO investors, the threshold for review is either $50 million or $5 million and at least 50% of global assets in Canada. The Investment Canada Web site provides guidelines on the application of the Investment Canada Act (*www.investcan.ic.gc.ca*).

system, these Canadian companies not only compete to secure markets in other countries, but many also establish distribution facilities abroad through international investment. Increasingly, many of their suppliers and investors, both in Canada and abroad, may be foreign. Over the past decade, Canadian investment abroad has increased to the point where Canada is now a net exporter of capital by a significant margin.

Although the most important destination for Canadian direct investment abroad as of 2003 was the United States (41% or $165 billion), Canadian firms have made significant inroads in Europe, especially in the European Union in recent years. The EU's share of total Canadian direct investment abroad (CDIA) rose from 18.6% in 1999 to 24.8% in 2003.

Foreign Direct Investment in Canada

Foreign investment is also critical to Canada's future. FDI accelerates productivity growth and funds economic transformation. In addition to bringing capital to the Canadian economy, FDI brings the latest technology embedded in machinery and production processes, as well as marketing and management expertise and access to export markets through established distribution networks. FDI also stimulates increased domestic competition, a major driver of innovation in a knowledge-based economy. Maintaining the flow of FDI into Canada and expanding existing investment are essential to generating economic growth and wealth to fund a