## V. DIRECT INVESTMENT (STOCKS)

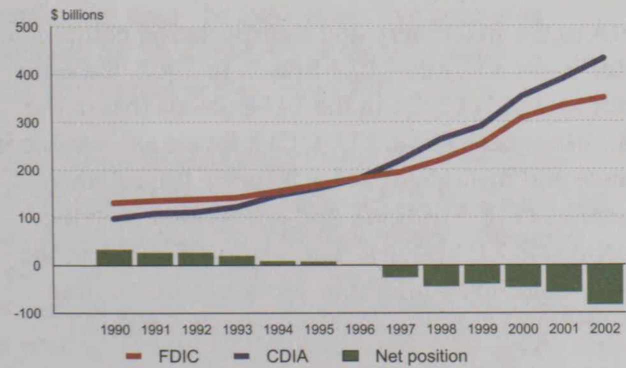
Up to now, this Report has examined the annual flows of capital and financial transactions and of goods and services between Canadians and foreigners. However, on the investment side, there is an additional dimension that can be addressed — the holdings, or stocks, of outward and inward foreign investment that have accumulated through time. This chapter examines the stock of Canadian holdings of direct investment abroad as well as the stock of foreign direct investment holdings in Canada.

Foreign direct investment (FDI) is an investment by an investor from one country involving a long-term relationship, reflecting a lasting interest and a significant influence on the management of an enterprise residing in another country. It usually requires a holding of 10 per cent or more of voting equity, but does not have to imply control of the foreign firm. Direct investments made by Canadians abroad, or outward investment, is called Canadian direct investment abroad, or CDIA, while direct investment made by foreigners in Canadian enterprises is referred to as foreign direct investment in Canada, or FDI in Canada.

In 2002, Canadian direct investment abroad amounted to \$431.8 billion, up 10.8 per cent from the \$389.7 billion registered for 2001. The growth of foreign direct investment into Canada slowed to 4.7 per cent in 2002, down from 8.5 per cent one year earlier. FDI in Canada stood at \$349.4 billion last year. With the stock of outward investment exceeding that of inward investment, Canada is now a net exporter of direct investment capital. Canada has been in this net exporter position since 1997, when the stock of CDIA exceeded that of FDI in Canada for the first time since records of this data were kept.

Figure 5-1

CDIA, FDI in Canada, and net direct investment position, 1990-2002



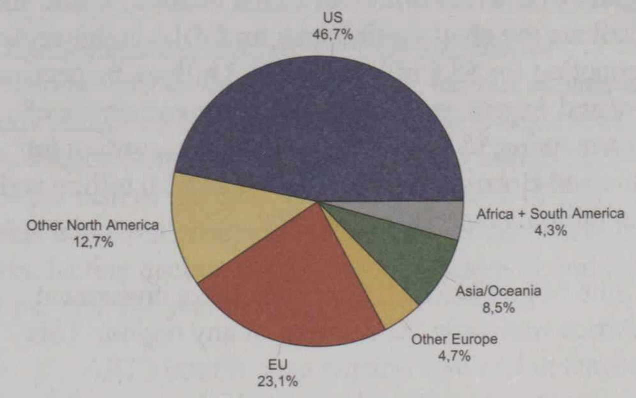

### Outward direct investment

*Investment by region*

The largest portion of Canadian FDI holdings is placed within North America, which accounted for almost six-tenths (59.4 per cent) of the total outward stock of investment. The bulk of the North American holdings are in United States-based companies, which accounted for 78.7 per cent of the total North American investment, or \$201.8 billion. The U.S. is also the single largest country for CDIA, accounting for just below half (46.7 per cent) of total Canadian outward investment. At \$23.9 billion and \$9.4 billion, the Barbados and Bermuda account for almost two-thirds of the remaining stock of CDIA in North America. The Barbados is, in fact, the third largest single-country destination of CDIA, after the United States and the United Kingdom. Canadian investment in NAFTA-partner Mexico edged up 2.0 per cent to \$3.3 billion in 2002.

Figure 5-2

Distribution of CDIA by region, 2002




At a little over one-quarter of the total, Europe is Canada's second largest destination for CDIA. Direct investment holdings in Europe grew at twice the pace of total CDIA in 2002 — 22.4 per cent *vs.* 10.8 per cent. The bulk of Canadian direct investment holdings in Europe is in the European Union, which accounted for nearly \$100 billion of the approximate \$120 billion invested in Europe, or five-sixths of total CDIA in Europe.

The stock of CDIA in the EU grew 22.7 per cent, an increase of \$18.5 billion, from 2001 to 2002. Investment levels were up for all EU countries, except for Italy where the stock nearly halved from \$4.9 billion in 2001 to \$2.6 billion last year. Elsewhere in the EU,