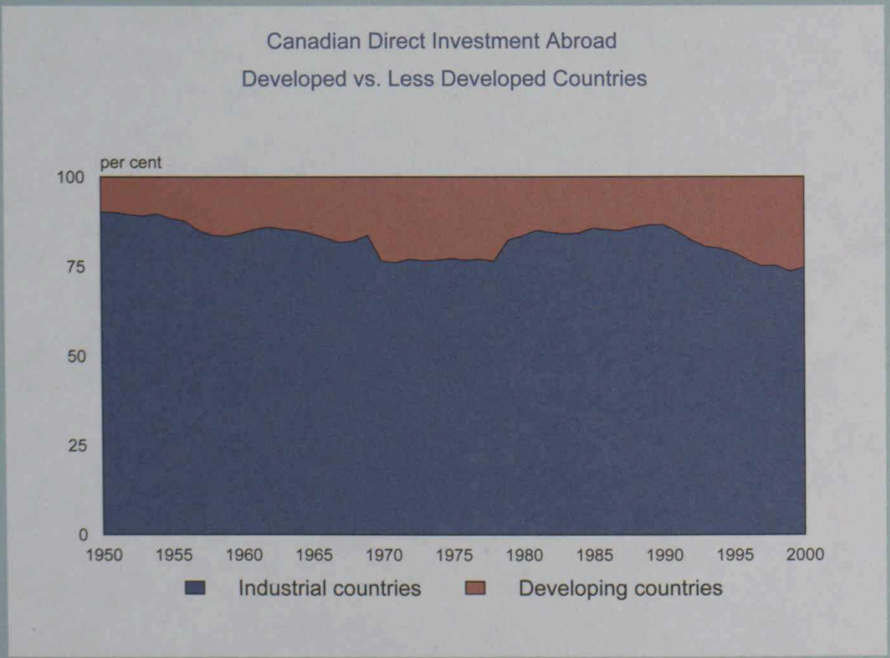
similar finding holds for CDIA. The United States, the U.K., and countries in Non-US North America (mainly Bahamas, Barbados, and Bermuda), Japan in Asia, and Brazil and Chile in South and Central America were among the top destinations of Canadian direct investment abroad.

Adjusting for host country income levels, proximity, and language, a large share of CDIA is headed toward offshore financial centers, the countries with low-taxes, or those endowed with natural resources. For instance, between 1990 and 2003, Canadian investment in official financial centers increased from $11 billion to $88 billion, or more than a quarter of the total increase in CDIA. Barbados, Bermuda, Cayman Islands, and the Bahamas are the top destinations among official financial centers that experienced the strong growth in the past decade. In Europe, Canadian investment concentrated in the Netherlands and two low-tax countries (Ireland and Hungary), rather than in big continental European countries such as Germany and France.

Canadian investment in Central and South America was substantial; particularly in resource-rich Brazil and Chile. Canadian direct investment in these countries was larger than that in Mexico. In non-Japan Asia, Canadian direct investment focused on resource-rich Indonesia and two Asian financial centers, namely, Singapore and Hong Kong. Contrary to the public perception, Canadian direct investment in the two Asian emerging markets of China and India was relatively small. Average Canadian direct investment in China during the period of 1999-2003 was only $602 million, which was smaller than Canadian investment in countries such as Colombia and New Zealand. Canadian direct investment in India over the same period was $178 million, which was similar to Canadian investment in Panama.

Further, there is evidence that the direction of CDIA has shifted in the past several decades, with an increasing share heading toward developing countries.

The figure below shows the share of CDIA in developed and developing countries from 1950 to 2000. In the early 1950s, developing countries accounted for about 10 percent of total CDIA. That share increased throughout the 1960s and reached 23 per cent by the end of 1970s. The 1980s was a lost decade for developing countries as the share of CDIA slipped back to 13-15 per cent of total CDIA. Since 1989, however, the share of CDIA heading toward developing countries came back and surpassed the previous peak in the 1970s to reach 25.2 per cent in 2000 from the low of 13.4 per cent in 1989.



The distribution of CDIA among developing countries was very uneven (Table D-2). Barbados, Bermuda, Bahamas, and Cayman Islands topped Canada's direct investment in developing countries. This was followed by investment in Hungary and resource-based South and Central American economies including Brazil, Chile, and Argentina. These countries plus Mexico, along with Indonesia, Singapore and Hong Kong in Asia accounted for 90 per cent of Canadian direct investment in developing countries.