

As with trade, Canada has been diversifying its foreign direct investment abroad away from the United States over time, although that country remains the largest destination for Canadian direct investment abroad.

Foreign direct investment is oftentimes characterized as an alternative strategy to trade. Firms may either produce at home and export or they may produce abroad and substitute the sales of their foreign subsidiaries for exports. The literature on whether outward FDI is complementary to or a substitute for exports is, however, inconclusive, with findings for both. The association was tested for Canada and a complementary relation was found — a 10 percent increase in the stock of Canadian outward direct investment would raise exports by 1.2 percent. Thus, there is no evidence that CDIA leads to a reduction in Canadian exports. On the contrary, this empirical finding supports the view that the rapid increase in the stocks of Canadian outward direct investment during the 1990s and 2000s facilitated rather than detracted from the substantial increase in Canadian exports.