



Foreign Affairs and
International Trade Canada

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Inward & Outward FDI

- A Federal Government Perspective -

Presentation to the International Trade and Investment Centre

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Canada



We will explore 5 areas

Overview

- **Pros and Cons of Direct Investment**
- **Global Trends**
- **Canadian Trends**
- **Federal Policy**
- **Challenges Ahead**



Pros and Cons of Direct Investment



FDI offers many advantages, but there are some fears

The benefits of multinational firms (MNEs) are well documented ...

- More innovative and productive
- More export-oriented
- Transfer of latest technologies
- Stimulate domestic competition
- Higher wages
- Connect Canadian industries to global value chains (GVCs)
- Indirect spillovers (i.e. technology know-how, management practices)
- Add capital to the economy

But the rise in incoming FDI has raised a key concern

- Hollowing out

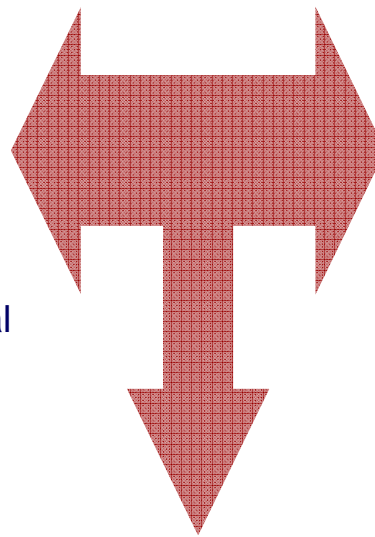
... with inward FDI playing a key role in shaping the Canadian economy

Foreign-controlled MNEs in Canada account for...

- 45% of merchandise exports
- 34% of R&D business expenditures
- 26% of corporate profits
- 29% of operating revenues
- 25% of capital investment
- 21% of assets

While CDIA affords other benefits

- Foreign affiliate sales \$508 bn
= 90% of exports of G&S
- Foreign employment 1.1 mn





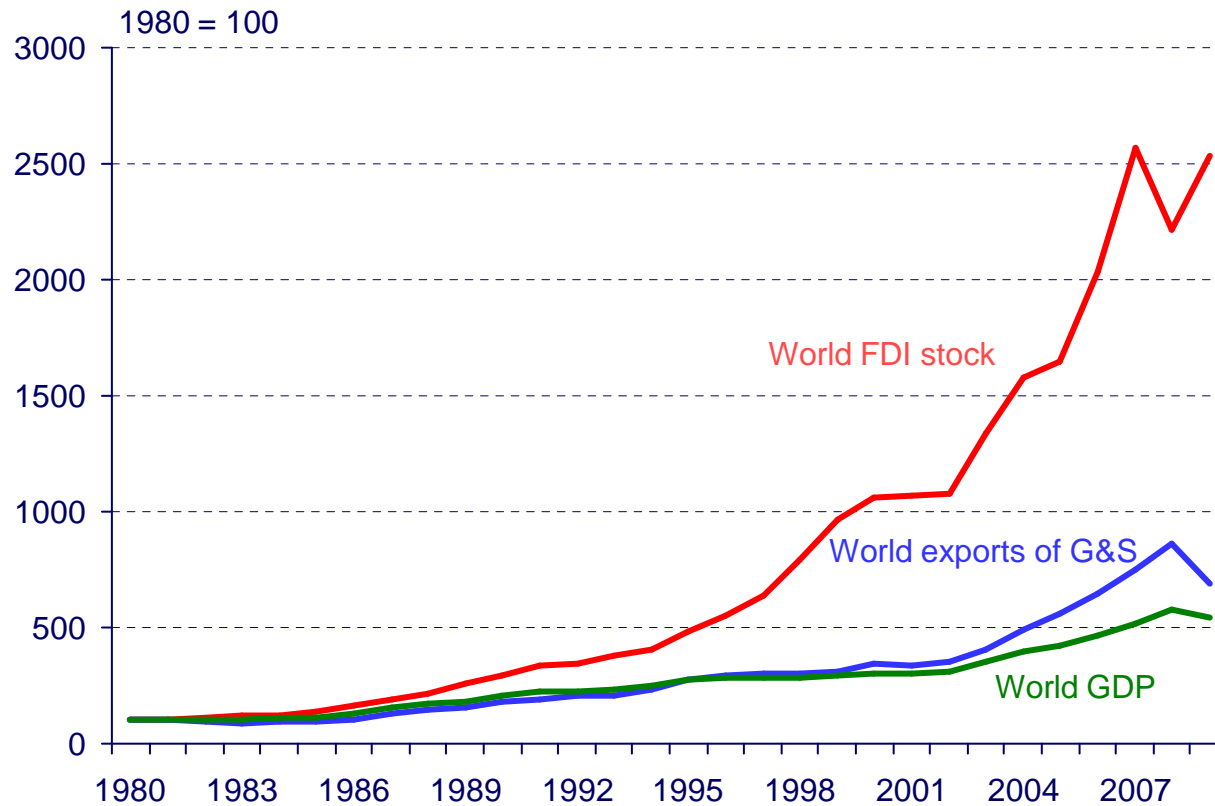
Global Trends



FDI growth is outstripping increases in GDP and trade

World FDI Stock, Exports, and GDP

(Index: 1980 = 100)



Sources: World Investment Report database and IMF WEO database, October 2010



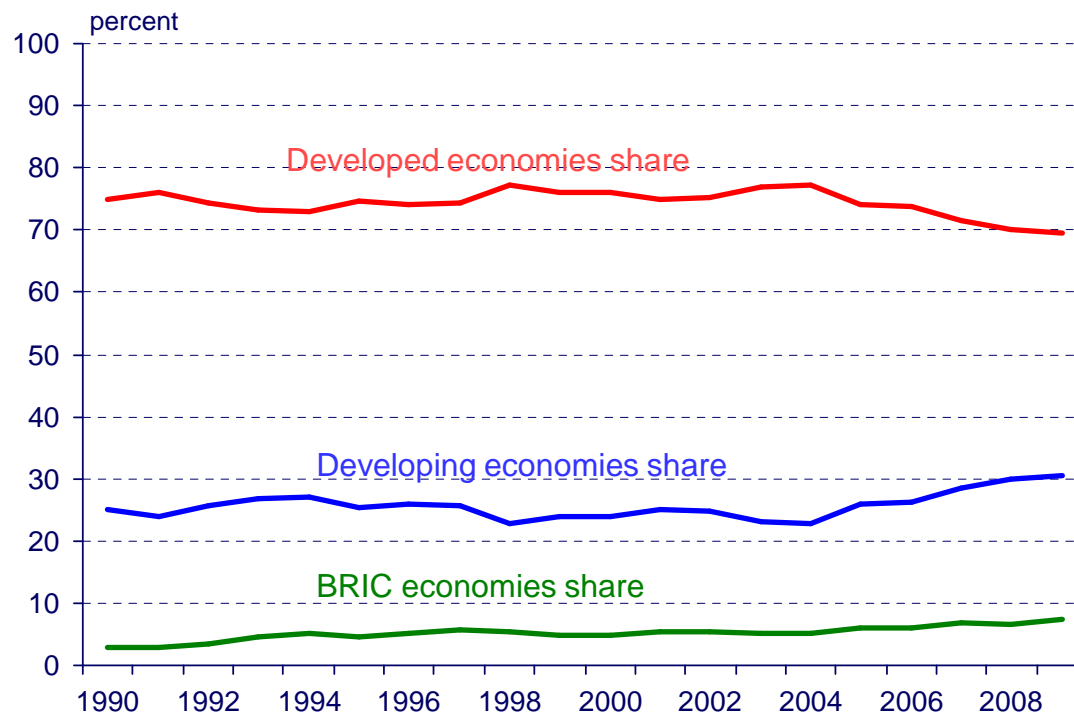
FDI is a major factor underlying growing integration of world economies

Global Trends:

- **82,000 transnational (parent) corporations**
- **810,000 foreign affiliates**
- **Affiliates account for one-third of world exports of G&S**
- **Affiliates employ almost 80 million**
 - (4.6 times total employment in Canada)
- **World stock of outward FDI has grown from US\$2.1 trillion to US\$19.0 trillion over 1990 to 2009**
 - an increase of 810 percent
 - average annual growth of 12.3 percent

Inward FDI is concentrated in developed countries, but that is slowly changing ...

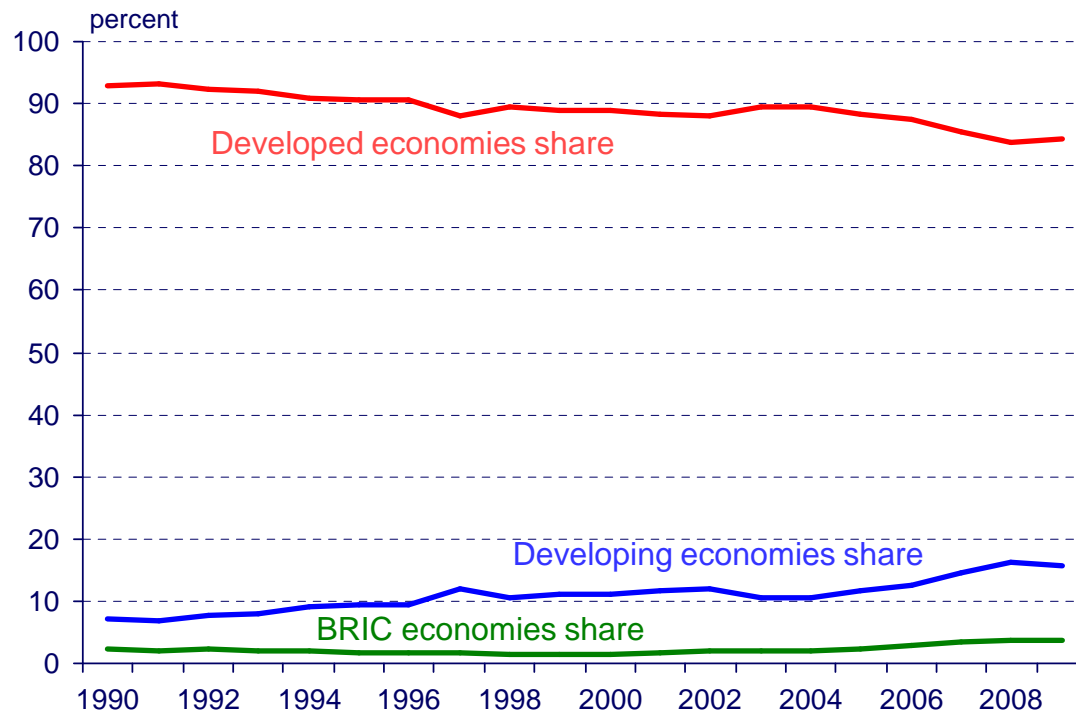
Share of Global Inward FDI Stock





... even for outward FDI

Share of Global Outward FDI Stock



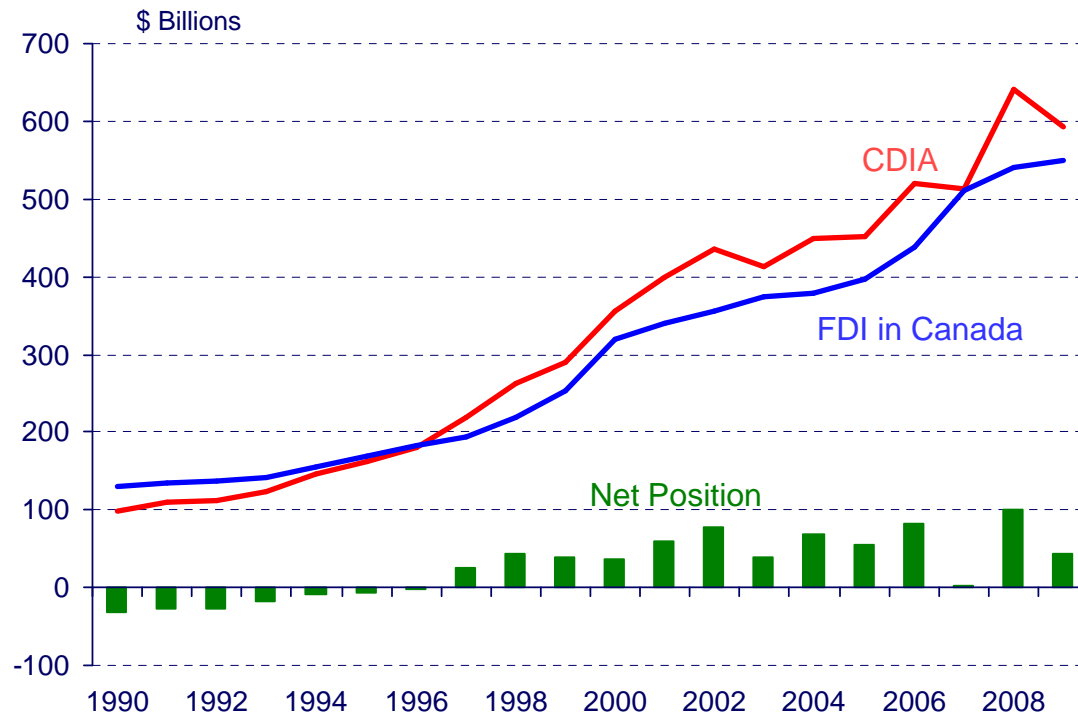


Canadian Trends



Canada became a net investor abroad beginning in 1997

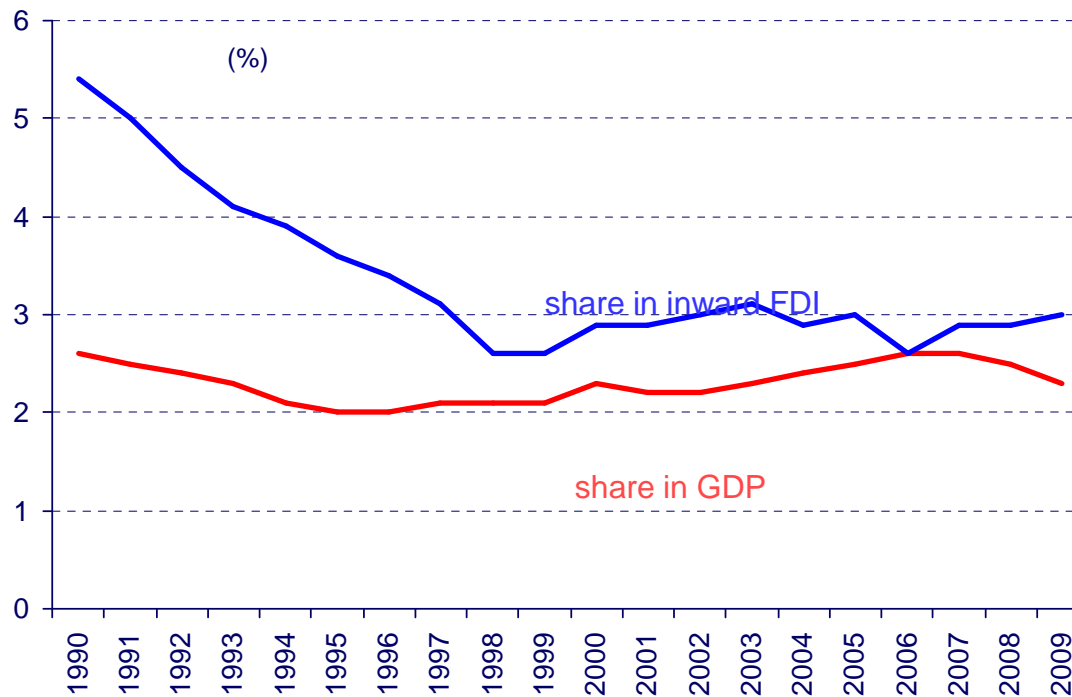
CDIA, FDI in Canada and net direct investment position





However, our share of world inward FDI remains above that of world GDP

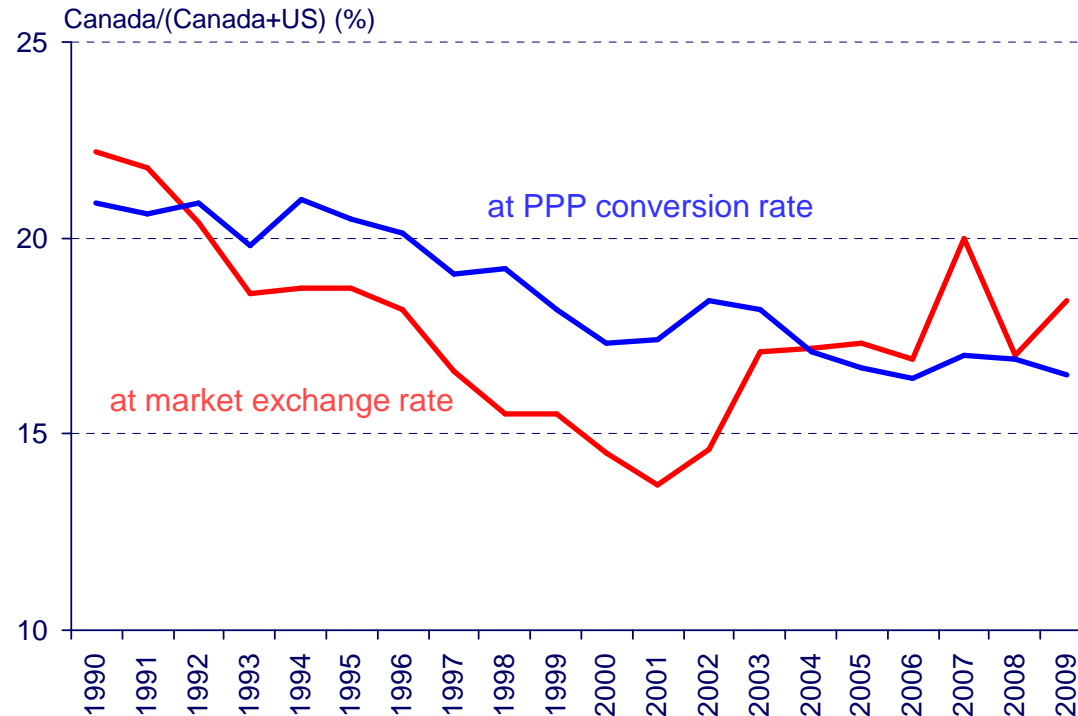
Canada's share of world GDP and inward FDI





Perceived poor performance in North America largely a currency effect?

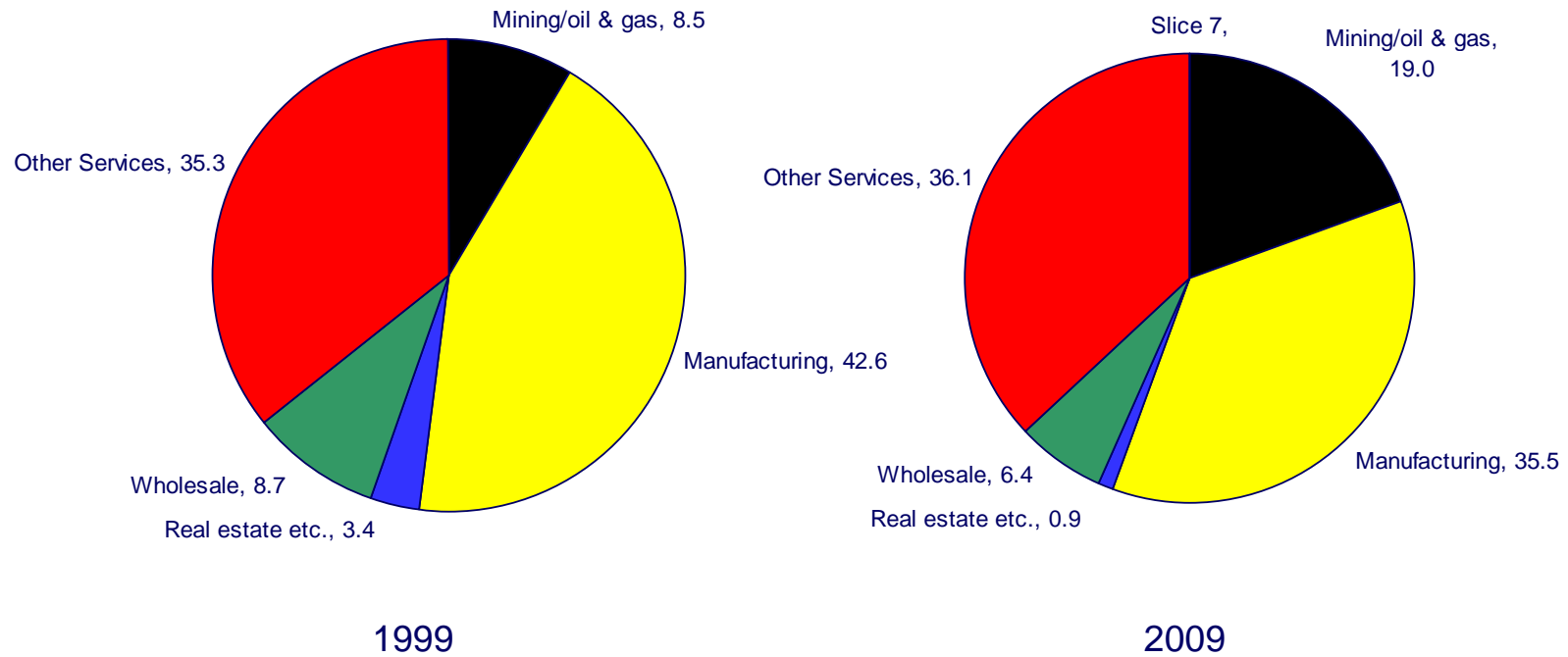
Canada's inward FDI as a proportion of North American inward FDI





Focus of inward investment is shifting to mining, oil & gas from manufacturing

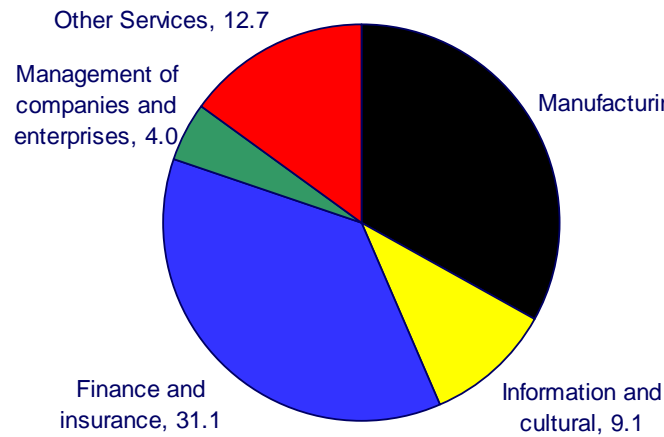
Sectoral composition of Canadian inward investment: 1999 - 2009



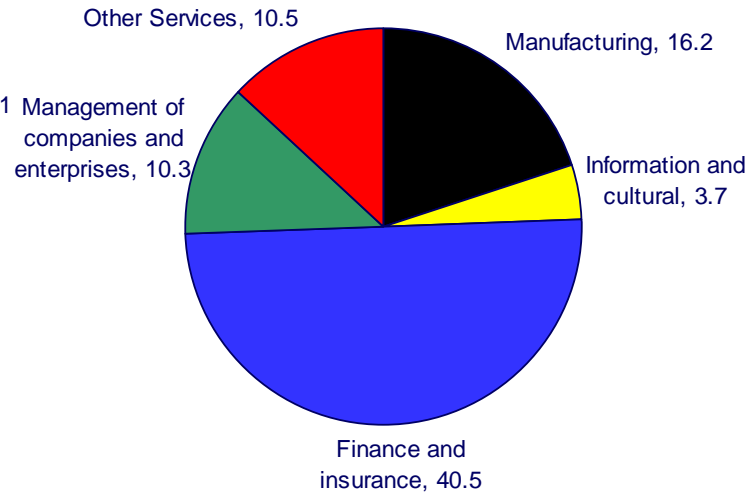


Outward investment is concentrating on finance and insurance

Sectoral composition of Canadian outward investment: 1999 - 2009



1999



2009



Canadian Federal Policy toward FDI



Early policy more defensive

Over 1960s-early 70s

- U.S. ownership concerns

Foreign Investment Review Act (FIRA)

- Enacted December 1973
- Screening inward investment (April 1974)
- Screening greenfield investment (late 1975)
- “significant benefit” for Canada
- High acceptance rates



But became more liberal in mid-1980s ...

Investment Canada Act

- Replaced FIRA in 1985
- More relaxed:
 - Review of new businesses discontinued
 - Threshold : \$5 million in assets
\$50 million for indirect acquisition
 - “net benefit”
 - Promoting FDI



... and further opened up by the FTAs

Investment Canada Act(continued)

- **Under CUSTA:**

- **threshold for direct acquisitions from U.S. \$150 million**
- **performance requirements abandoned**

- **Under NAFTA:**

- **higher thresholds extended to Mexico**
- **national treatment**
- **provide investors with MFN treatment**
- **“minimum” standards for fair and equitable treatment**



FDI policy became more holistic in the mid-1990s ...

- In 1994, FDI review was brought within Industry Canada.
- Threshold for review, now at \$299 million for 2010, for all investors from a WTO member countries. *(Note: On a date to be fixed, new regulations will raise the threshold to \$1 billion over six years, with further increases based on a prescribed formula.)*
 - Performance requirements to adhere to national-treatment obligations included in NAFTA and commitments in TRIMs.
 - Screening within context for encouraging innovation and promoting industrial development.



And has become more aggressive in seeking out FDI in Canada

Investment Promotion at DFAIT

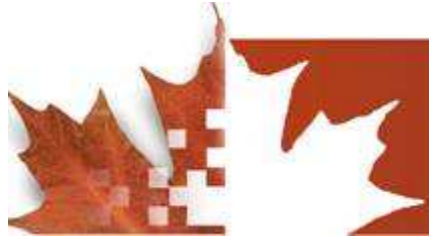
- Created Invest in Canada to promote, attract, and retain foreign direct investment in Canada.
- GCS provides resources for competing for wealth-creating, productivity-boosting foreign direct investment (FDI).
- New reality:
 - FDI-global supply chains-R&D-IT-HQ functions linked as a continuum (“integrative trade”);
 - Low corporate taxes and tariff-free manufacturing inputs may not be enough.



Global Commerce Strategy

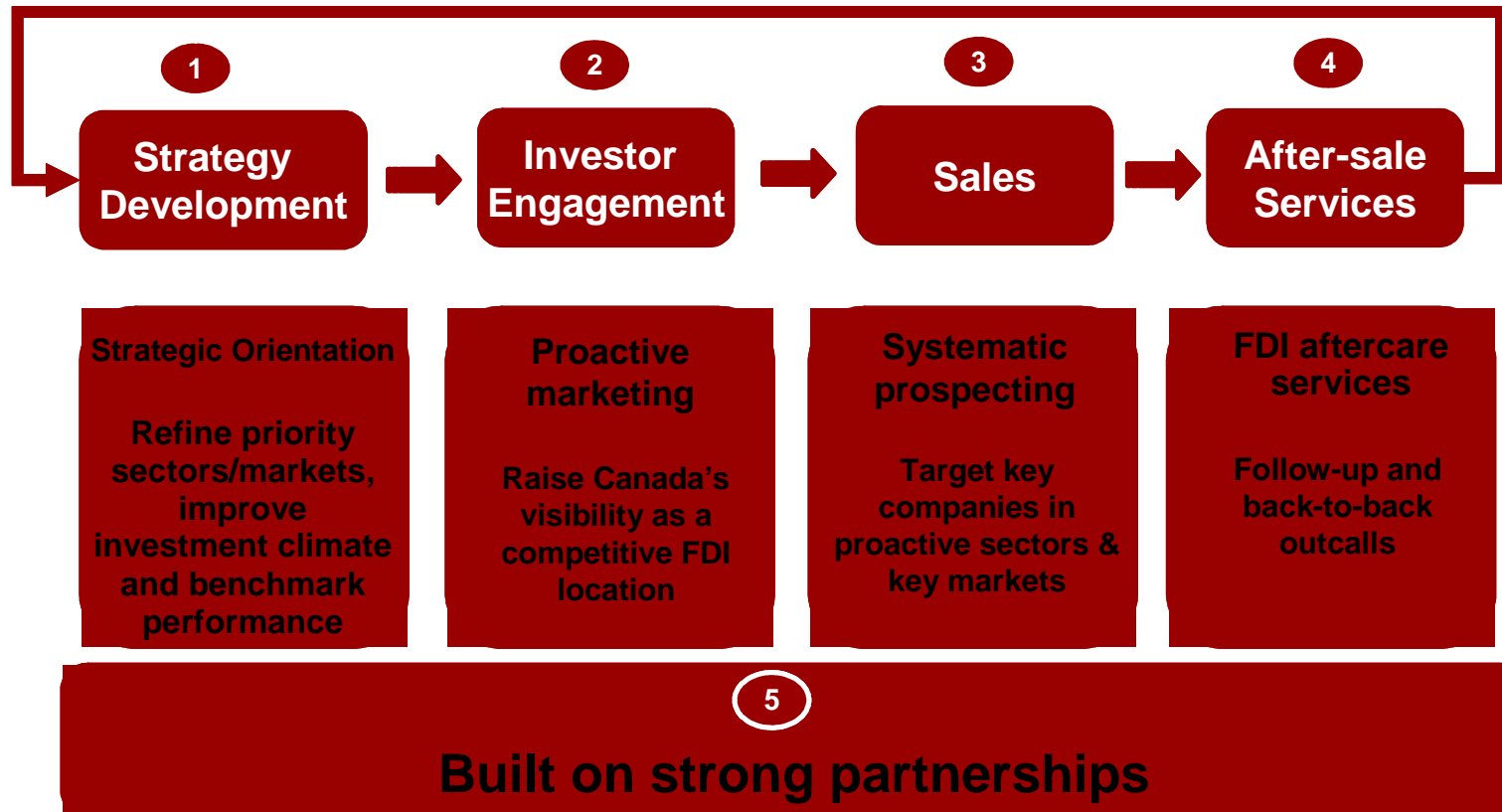
Global Commerce Strategy

- **More proactive promotion of investment into Canada**
- **Also facilitate outward investment**
- **Recognition of global value chains (GVCs):**
 - **production fragmented regionally or globally**
 - **“think global, act local”**



Global Commerce Strategy.

Invest in Canada FDI Model





Challenges Ahead



What more can be done?

- **Remaining restrictions** (i.e. banking, telecommunications, transportation, culture).
- **Assess and communicate sectoral advantages to potential investors and rely less on overall, broad Canadian advantages.**
- **Fragmentation reality: MNEs optimizing locational decisions on a global scale but seeking efficiencies on a local scale:**
 - **Provinces and municipalities increasingly brought into promotion process.**
- **Foster and support Canadian levers that attract foreign investors** (e.g. domestic innovation climate, linkages to R&D chains, converting R&D into commercial applications, etc.)



Thank you

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