



CANADIAN INTERNATIONAL DEVELOPMENT PLATFORM

CANADA IN INTERNATIONAL DEVELOPMENT

Data Report 2016
Foreign Investment



Private foreign investment has two main components: foreign direct investment (FDI) and portfolio investment (which includes equity and debt instruments). The total stock of Canadian outward FDI in 2014 is estimated at approx. \$780 billion. The total market value of Canada's foreign portfolio investment at the end of 2014 is estimated at \$1.38 trillion (includes both equity and debt). Developing countries account for a small but growing share Canada's private foreign investment footprint.

THIS SECTION DISCUSSES:

- **Top 15 destinations of Canadian FDI among developing countries**
- **Top 15 destinations of Canadian portfolio investment in developing countries**
- **Canada's net FDI position with key emerging economies**

It also benchmarks Canada's performance against other comparable advanced economies, for example:

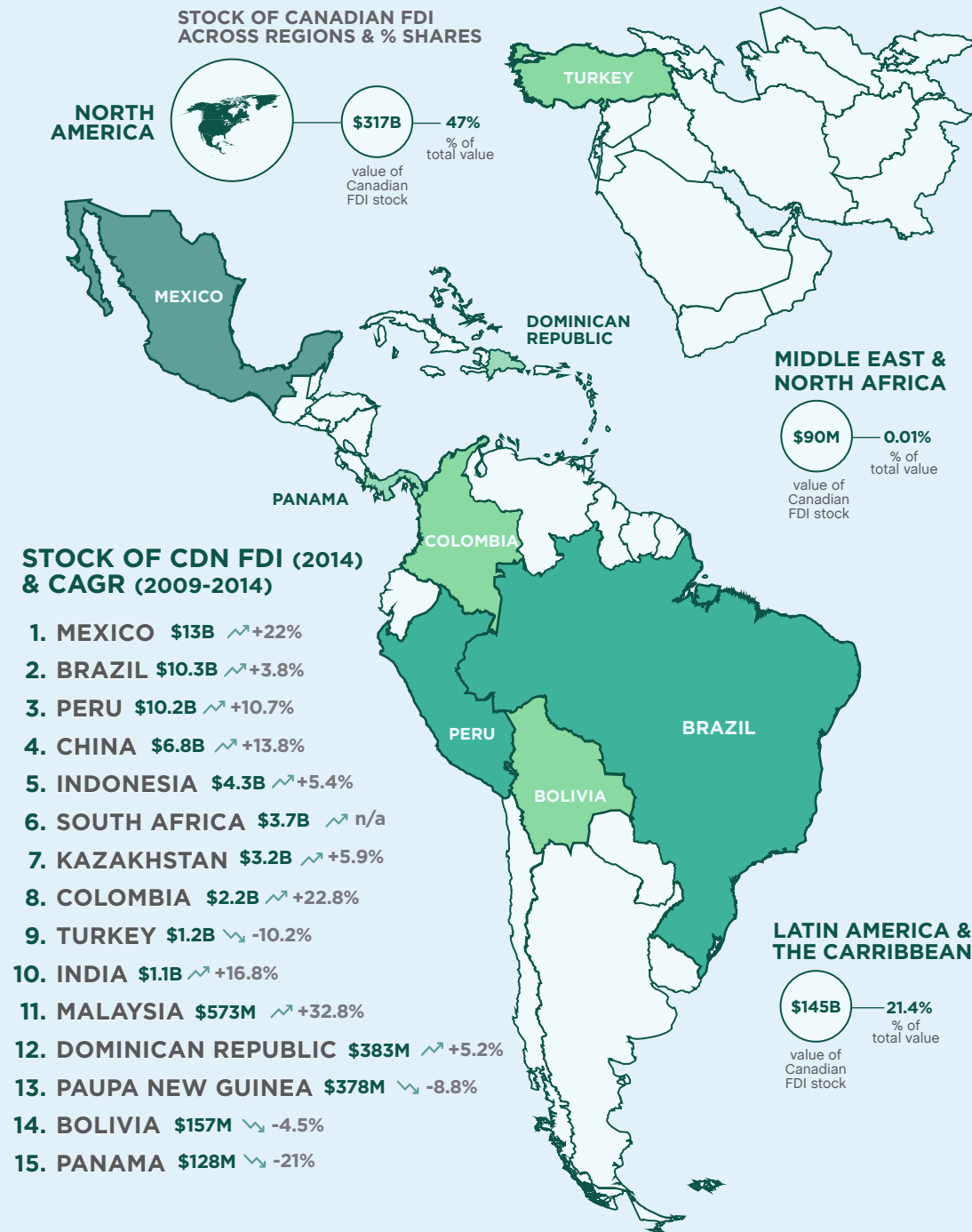
- **How open or restrictive is Canada when it comes to foreign investment?**
- **How does Canada's pattern of investment in developing countries compare with that of advanced economies?**

HIGHLIGHTS

- Developing countries account for a small fraction of Canadian foreign investment.
- Only approx. 8% of FDI from Canada is in low, lower middle or upper middle income countries; and the share that developing countries make up in Canadian owned debt and equity holdings is even smaller at around 5%.
- Nevertheless, Canadian FDI in developing countries is growing at about twice the pace of overall outward FDI (2009-2014).
- Outside of high income countries, Canadian outward FDI is concentrated in two regions: Latin America and the Caribbean (21%), and East Asia (7%).
- The largest and fastest growing destinations for Canadian FDI overseas include: Mexico, Brazil, Peru, China and Indonesia.
- Canada's net FDI position with large emerging economies – China, Brazil and India – has changed rapidly, and these countries are now bigger investors in Canada than Canada is in them.
- Data and information gaps seriously limit analysis of Canadian investment in developing countries and investment from developing countries in Canada. For instance, in 2014, FDI data were suppressed for 66 out of 176 countries and or regional aggregates, due to confidentiality considerations.
- While these gaps are known and being addressed, more work is needed.
- The financing required to meet ambitious global goals such as the SDGs or climate change will not be achievable through foreign aid alone. Increasingly, discussions are already shifting to creative approaches by which public and private investment can be linked in order to leverage one another. One step in this direction is a development finance institution (DFI).
- Canada announced a \$300 million allocation (over 5 years) towards a new Canadian DFI in the 2015 budget. This idea needs to be built on. We have outlined 4 key principles that should guide Canada's DFI: it should put development impact at the top; complement not substitute for traditional aid; aim to be self-sustaining; and be able to leverage private capital from financial markets to fund development objectives.

TOP 15 DESTINATIONS OF CANADIAN FDI AMONG DEVELOPING COUNTRIES

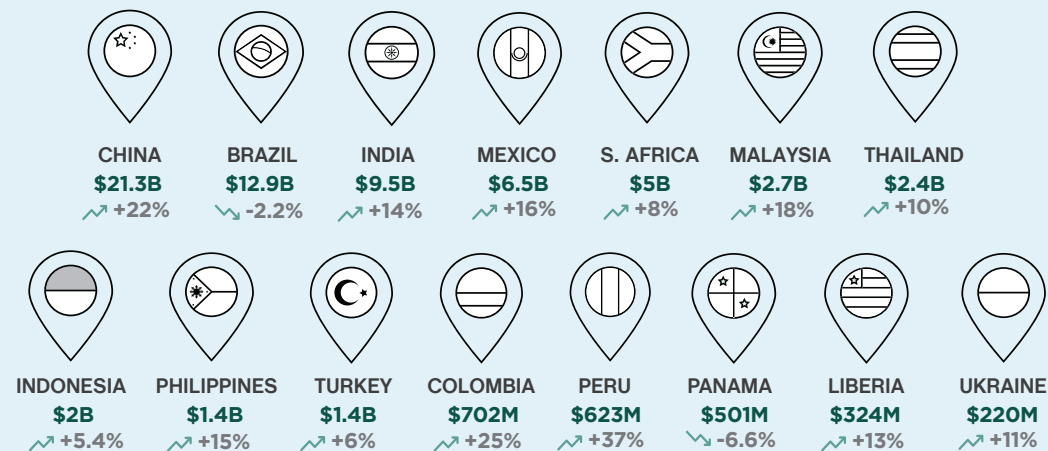
92% of total Canadian overseas FDI is in other high income countries, only about 8% is in developing countries. From 2009-2014 Canadian FDI grew at a CAGR of 5%, while FDI to developing countries grew at a CAGR of 9% (from \$37.5bn to \$58bn). However, in aggregate terms Canadian FDI in developing countries remains small and concentrated in two regions, Latin America and East Asia.



CANADIAN PORTFOLIO INVESTMENT OVERSEAS (2014)

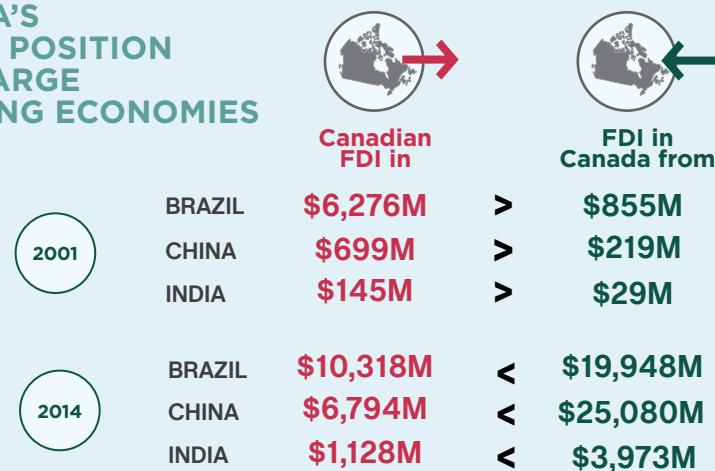
Top 15 markets among developing countries:

*amounts in CAD, at market value; CAGR calculated using data from 2010-2014



Portfolio investment comprises equity and debt investments. The vast majority Canadians' foreign portfolio holdings are in other high income countries (95%) and the largest share in the US. However, the value of portfolio holdings in large emerging and developing countries is increasing rapidly, as a result of both greater attention by Canadian investors and market performance.

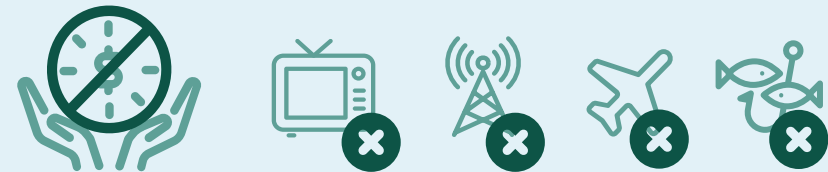
CANADA'S NET FDI POSITION WITH LARGE EMERGING ECONOMIES



Brazilian FDI in Canada is nearly 2x Canadian FDI in Brazil; Chinese and Indian FDI in Canada is nearly 4x Canadian FDI in these countries. This pattern has changed in a short period of time. Canada is a key investment destination for these countries and this trend is expected to continue.

FDI RESTRICTIVENESS INDEX

The OECD's FDI Restrictiveness Index measures restrictions on foreign direct investment in 58 countries. Among advanced OECD economies, Canada ranks as one of the most restrictive, and far higher than the OECD average. Key sectors that contribute to this include: restrictions on FDI in the media sector including radio and TV; mobile telecom and communications sectors; air transport; and fisheries.



DATA AND INFORMATION GAPS IN THE AREA OF INVESTMENT

66/176: Number of countries and or regional aggregates for which Canadian FDI data were suppressed in 2014

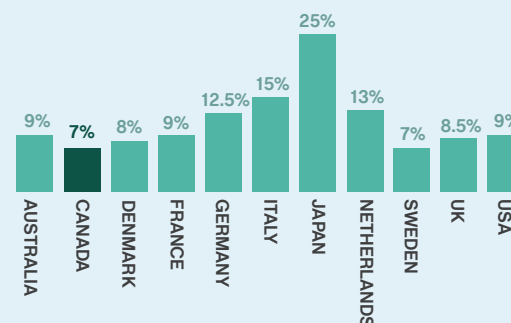
Key data and information gaps in the area of international investment are a major barrier to evidenced-based policy analysis. FDI data are routinely suppressed by official sources, due to confidentiality considerations, for a number of countries where a small number of firms account for the bulk of Canadian investment.



FDI data are collected through a survey process that is not entirely transparent or replicable. Data are only available on a stock basis (and not flows during a given year) making comparisons difficult. Significant revisions to past data series, a process known as 'backwardization', have led to inconsistencies in data presented across different official sources, and cause analytical challenges. Sector level FDI data are not available at a sufficiently granular level such as by country. Efforts are underway to address some of these issues, but more work and attention is needed across a range of stakeholders.

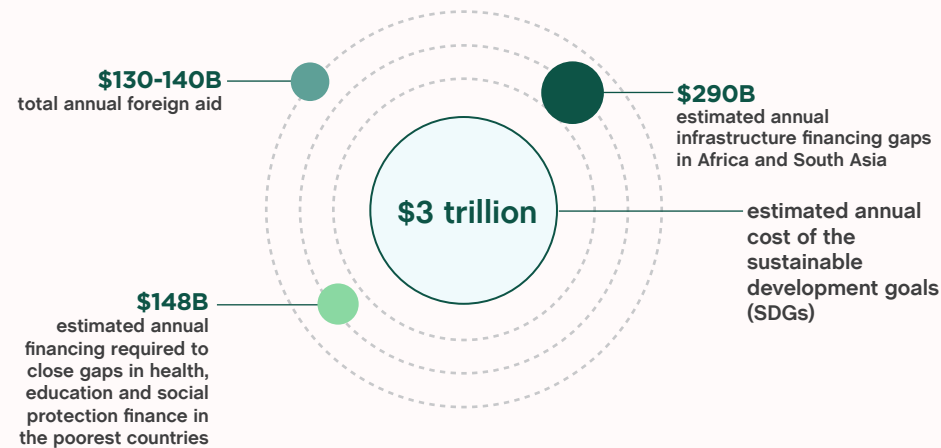
HOW CANADA'S FDI IN DEVELOPING COUNTRIES COMPARES WITH OTHER ADVANCED ECONOMIES

* % of total FDI stock in low, lower middle and middle income countries, based on IMF data



The pattern for Canada is similar to other comparable advanced economies. Most FDI from advanced economies tends to be in other advanced economies.

CANADA'S DEVELOPMENT FINANCE INITIATIVE: MAKING IT HAPPEN, GETTING THE DETAILS RIGHT



Ambitious development objectives need not be thought of as having to be achieved through foreign aid alone. Aid is an increasingly stretched resource relative to growing needs, from pressures such as humanitarian crises, the need for climate finance to the costs related to financing the SDGs.

These gap estimates look daunting in isolation, but, from the perspective of investable capital in the global economy they are not that far out of reach. The World Bank estimates that developing countries will continue to increase their share of global savings. Gross capital flows to developing countries could increase from around \$1.3 trillion per year in 2010 to between \$6 and \$13 trillion by 2030.

A key bottleneck is that the plumbing of the financial system is broken. Investment doesn't always flow to where it is most needed or where it has the best possible chance of making the best available returns, whether purely financial returns or combined development and financial returns.

DFIs can play an important role in fixing these gaps by encouraging private sector investment in developing countries. The participation of the private sector in development is critical not only as an important resource generator but also as a key agent in poverty reduction.

Canada should therefore proceed with and build on the \$300 million (over 5 years) allotted towards setting up a DFI in the 2015 budget. 4 principles are key when doing so:

- **Place development at the top of the DFI's mandate**
- **Complement and supplement foreign aid**
- **Aim to be self-sustaining**
- **Leverage private capital from financial markets**

World Bank, *Global Development Horizons* (2013); ODI, *Financing the Future* (2015); CIDP, *Canada's DFI* (2016)

KEY DATA SOURCES

Canadian International Development Platform. 2016. Canada's DFI: Resources and Analyses. <http://cidpnsi.ca/canadas-dfi/>
IMF (International Monetary Fund). 2015. "IMF eLibrary Data, Coordinated Direct Investment Survey (CDIS)." Accessed February-May, 2016. <http://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5&sid=1390030109571>

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OECD (Organisation for Economic Development and Co-operation). 2016. "FDI Regulatory Restrictiveness Index." Accessed: February 2016. <http://www.oecd.org/investment/fdiindex.htm>

Statistics Canada. 2016. "CANSIM, Table 376-0051, International Investment Position, Canadian Direct Investment Abroad and Foreign Direct Investment in Canada, by Country." Accessed February-April, 2016. <http://www5.statcan.gc.ca/cansim/a26?lang=eng&id=3760051>

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TECHNICAL DETAILS

Map indicates the top 15 destinations of Canadian FDI across developing countries in 2014. FDI data are on a stock basis. Data are based on Statistics Canada international investment position (see data sources details) and are in Canadian dollars. Compound annualized growth rates (CAGR) are calculated as a change in stock over the period 2009-2014. World Bank income and regional classifications are applied to the country level data. These aggregations, applied throughout the investment section, may differ (though not dramatically) from the regional classification used by Statistics Canada in CANSIM (no income classification is provided in Canadian sources).

Portfolio investment data are provided on an 'at market basis'. Data are drawn from Statistics Canada (see data source details). The data combine equity and debt asset positions. CAGR is calculated over 2010-2014.

Net FDI position with large emerging economies is calculated as Canadian FDI in emerging economy (e.g. China), minus, FDI in Canada from the same emerging economy.

FDI restrictiveness is measured using the OECD's FDI restrictiveness index, data are for 2015.

Information gaps data are based on the number of countries and or regional aggregates for which Canadian FDI data are suppressed for confidentiality reasons, data are for 2014.

Comparative FDI data are based on the IMF's direct investment survey (see data sources for details), to which World Bank income classification is applied. Data are for 2014.

DFI information is based on Canadian International Development Platform analysis (see Canada's DFI: Resources and Analyses).



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