

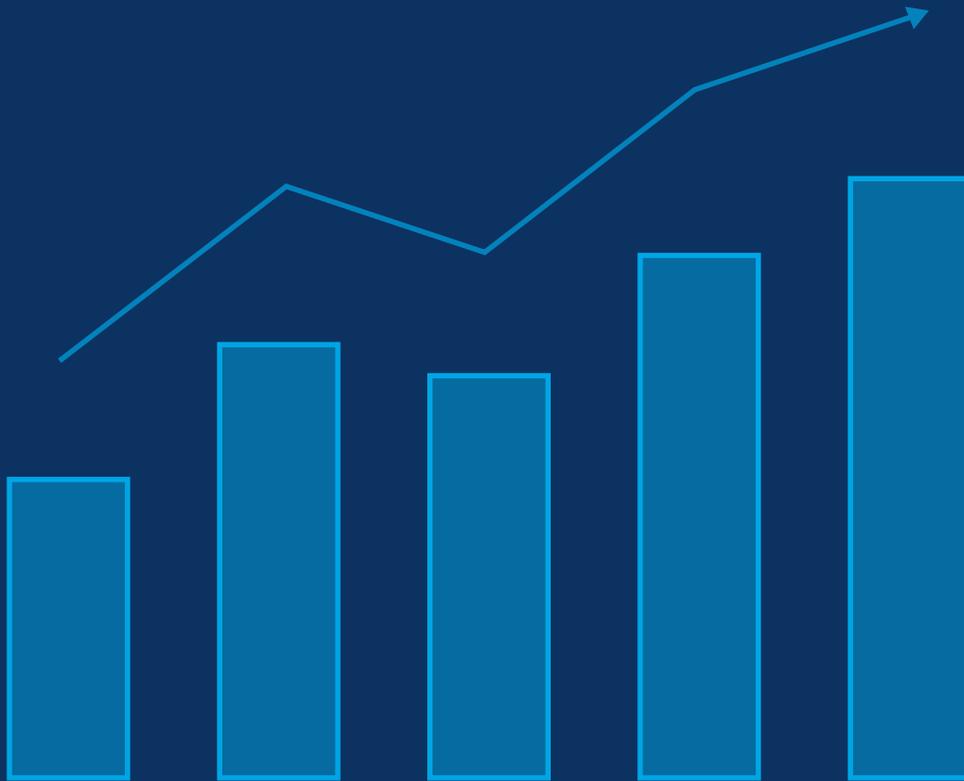


ASIA PACIFIC
FOUNDATION
OF CANADA

FONDATION
ASIE PACIFIQUE
DU CANADA

INVESTMENT MONITOR

2022



Post-Pandemic Recovery and Canada-Asia FDI:

Is the Rebound Sustainable?

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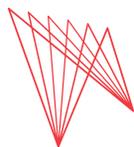
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ASIA PACIFIC FOUNDATION OF CANADA
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ABOUT APF CANADA

The Asia Pacific Foundation of Canada (APF Canada) is a not-for-profit organization focused on Canada's relations with Asia. Our mission is to be Canada's catalyst for engagement with Asia and Asia's bridge to Canada.

APF Canada is dedicated to strengthening ties between Canada and Asia with a focus on seven thematic areas.

Our research provides high-quality, relevant, and timely information, insights, and perspectives on Canada-Asia relations. Providing policy considerations and business intelligence for stakeholders across the Asia Pacific, our work includes [Reports](#), [Policy Briefs](#), [Case Studies](#), [Dispatches](#), [Digital Media](#), and a regular [Asia Watch](#) newsletter that together support these thematic areas.

APF Canada also works with business, government, and academic stakeholders to provide custom research, data, briefings and Asia Competency training for Canadian organizations. Consulting [services](#) are available by request. We would be pleased to work with you to meet your research and business intelligence needs.

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MESSAGE FROM THE PRESIDENT AND CEO



Over the past two years, the COVID-19 pandemic has disrupted our economic interconnectedness with widespread effects on global supply chains, trade flows, and foreign direct investment (FDI). In 2022, we are seeing slow but steady steps towards a global economic recovery. While gradual, this recovery is materializing in FDI relationships between Canada and the economies of the Asia Pacific. Indeed, the pandemic has been a catalyst for governments and firms on both sides of the Pacific to reconsider their economic engagement strategies.

As countries seek to diversify their economic relations, Canada is well-positioned to be among those that benefit from forging new trade and investment relations. While Canadian trade and investment relations are still heavily focused on the United States and Europe, the Investment Monitor report that follows suggests that Canada's relationships with Asia Pacific economies are expanding in terms of FDI flows. Notably, Canada's FDI outflows to the Asia Pacific in 2021 were the highest since the Investment Monitor started tracking two-way FDI flows in 2003. As Canada deepens and diversifies its engagement with the Asia Pacific, the FDI patterns observed in this report will continue to evolve.

Since 2017, APF Canada has published regular reports on bilateral FDI flows between Canada and the Asia Pacific to facilitate evidence-based policy-making and public discourse on Canada's engagement with the region. Six years into this initiative, the Investment Monitor continues to track two-way investment at the national, provincial, and city levels. Last year, our Investment Monitor report examined the impact of the pandemic on FDI between Canada and Asia. In 2022, we focus on reviewing the post-pandemic recovery in FDI flows.

The first of three Investment Monitor reports from our Business Asia team in 2022, this 'year in review' report captures trends in investment over the past year and compares them with the previous year and historical trends. While the report shows a healthy recovery in FDI flows between Canada and the Asia Pacific, some countries and industrial sectors have benefited more than others. By showing the changes in temporal trends in response to the pandemic, the report provides readers with detailed information on new investment relations that may shape

future trends. In doing so, the report provides a timely analysis of the changing investment landscape and reveals emergent opportunities for corporations based in Canada and the Asia Pacific.

Our second Investment Monitor report (August) will analyze the Canada-Asia Pacific research and development relationship, and our third report (October) will examine trends in critical minerals investment. I look forward to sharing our upcoming reports with you in the coming months.

On behalf of APF Canada, I would like to acknowledge the efforts of those involved in producing this report, especially our sponsors, Export Development Canada, and the Government of British Columbia. I would also like to thank the many investment attraction agencies and other government entities for their engagement and support for the Investment Monitor product.

And finally, I would like to thank the members of our APF Canada research team who were responsible for writing and finalizing this report: Jeffrey Reeves, Vice-President, Research & Strategy; Charles Labrecque, Research Director; Anastasia Ufimtseva, Program Manager, Business Asia; Charlotte Atkins, Project Specialist, Business Asia; our Junior Research Scholars, Rachael Gurney, Pia Silvia Rozario, and Shirley Wang; and, APF Canada's communications team for producing the final publication, Michael Roberts, Communications Director, and Chloe Fenemore, Graphic Designer.



JEFF NANKIVELL
President and CEO,
Asia Pacific Foundation of Canada

EXECUTIVE SUMMARY

The Asia Pacific is a dynamic region that boasts some of the largest and fastest-growing economies in the world, making it central to the global economy and offering opportunities for Canadian outbound and inbound investment.

To provide a better understanding of the Canada–Asia Pacific investment relationship, the Asia Pacific Foundation of Canada’s Investment Monitor offers a detailed look at key trends and investments. This annual report uses data aggregated from the Investment Monitor legacy data of two-way investment flows between Canada and Asia.

This first report focuses on the main trends in Canada–Asia Pacific investment for 2021. Specifically, this report provides insight into investment dynamics in the past year and contextualizes these events by placing them within the larger trends in investment between Canada and the Asia Pacific.

This annual report presents the following:

1. General trends in the foreign direct investment relationship between Canada and the Asia Pacific, from 2003 to 2021;
2. An in-depth look into key investments and trends from 2021;
3. Inbound and outbound investment relationships at the national, provincial, and city levels; and
4. A relevant analysis of changes to the Canadian investment screening regulations and foreign investment trends of state-owned enterprises (SOEs).

KEY TAKEAWAYS FROM THE REPORT

Indicating a post-COVID-19 foreign direct investment (FDI) recovery, Asia Pacific economies increased their FDI in Canada from C\$6.4B in 2020 to C\$14.4B in 2021.

This investment has predominantly been directed to the natural resources sector, including mining industries (41%) and forestry and paper industries (26%). Australia was the leading investor in Canada in 2021, followed by Indonesia and China.

Similarly, 2021 marks Canada's highest outbound investment flow into the Asia Pacific region since APF Canada began tracking FDI flows with the Investment Monitor in 2003.

Canadian outbound FDI to the Asia Pacific region increased in 2021, expanding from C\$15.1B in 2020 to C\$25.5B. Australia was the top recipient of Canadian FDI, followed by India, Taiwan, and Japan. Among the top three sectors for outbound FDI were utilities (companies offering multiple public services, such as energy and water), financial services, and electricity.

Australia became Canada's main investment partner accounting for most outbound and inbound FDI flows in 2021.

Australian companies have made several large acquisitions in the Canadian mining sector, including the acquisition of the Brucejack mine in British Columbia (BC) from Pretium Resources. Australia also became a preferred destination for Canadian companies in 2021, with the largest deal being the acquisition of AusNet Services, a natural gas transmission company, by four Canadian public pension funds.

Last year, China dropped to eighth place in the rankings of the largest recipients of Canadian FDI in the Asia Pacific.

China was consistently among the top five-largest recipients of Canadian outbound FDI from 2003 to 2019, and the No. 1 recipient for a 5-year period between 2005 and 2009.

Asia Pacific economies allocated the majority of their investment (96%) across four Canadian provinces – Ontario, BC, Quebec, and Alberta – in 2021.

A large share of Asia Pacific investment in the two leading industries, mining and forestry, went to BC and Ontario. At the city level, Vancouver, Toronto, and Mississauga received the most FDI from the Asia Pacific.

Canadian outbound investment predominantly went to Australian and Indian states.

Australia's Victoria and New South Wales ranked as first- and second-largest recipients of Canadian investment at the state level, followed by the Taiwanese Changhua. Victoria received Canada's largest investment into utilities in 2021, which dominated the sectoral ranking. Australian cities also dominated the top five rankings in terms of Canadian outbound investment, with Melbourne, Sydney, and Chatswood receiving C\$14B in Canadian FDI.

INTRODUCTION

Economic crises, such as the one triggered by COVID-19, often contribute to uncertainty among foreign investors, in part due to concerns over policy fluctuation and the tendency for governments to increase protectionism, which create an uncertain global investment environment and lead to a reduction in foreign direct investment (FDI) flows. The COVID-19 pandemic is not the first global crisis to be followed by a drop in FDI; both the SARS epidemic and the 2009 global financial crisis contributed to reductions in FDI flows, signalling investor sensitivity to global crises.¹

In 2020, the pandemic contributed to a 35% decline in global FDI flows² and an economic contraction of 4.3%.³ The brunt of this decline was felt by developed countries, which experienced an even larger drop in FDI than the global average; FDI flows among these countries fell by 58%.⁴ But despite the continued effects of the COVID-19 pandemic in 2021, countries expanded their cross-border trade and investment. Global FDI flows increased by 77% in 2021 from the previous year;⁵ correspondingly, FDI flows among developed economies almost tripled, reaching C\$970B FDI in 2021.⁶

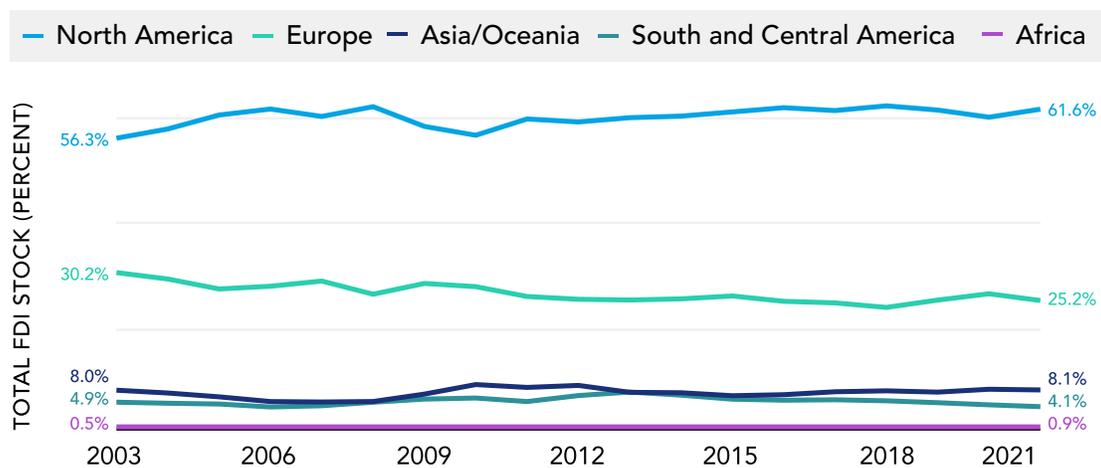
As reflected in FDI flows, the Asia Pacific has experienced an uneven economic recovery. Collectively, Asia experienced an FDI inflows increase of 18% in 2021. China had a record-breaking year with C\$223B in FDI inflows, and ASEAN countries experienced a 35% increase in FDI inflows overall,⁷ though not all member countries benefited from this growth equally. According to research from UNCTAD, the least developed countries (LDCs) in Asia recorded a negative FDI growth rate (47% decline) in 2020 and 2021,⁸ due, in part, to their dependence on external markets, which collapsed during the pandemic. For example, Sri Lanka and Bangladesh saw FDI inflows fall by 43% and 11%, respectively.⁹ A report by UNCTAD noted that LDCs have fared worse economically during the COVID-19 crisis because of structural weaknesses, such as a lack of credibility or weak institutional mechanisms.¹⁰

Despite the economic uncertainty, Canada's FDI relationship with the Asia Pacific continued to grow and deepen in 2021. Canada invested over C\$25.5B in a total of 12 Asia Pacific countries in 2021, with Australia receiving the most investment at C\$15.3B, India receiving the second most with C\$3.4B invested, and Taiwan in third with C\$2.8B invested in the country. Canadian investment contributed to the development of key sectors in the region, including the utilities sector, with C\$9.3B invested; the financial services sector, which received C\$4.5B in Canadian investment; and the electricity sector, with C\$3.1B invested by Canadians. Canadian state-owned enterprises (SOEs), such as the Canadian Pension Plan Investment Board (CPPIB) and the Caisse de dépôt et placement du Québec (CDPQ), have long recognized the investment

opportunities available in Asian infrastructure projects. Thus, they have continued to expand their investments in the region in 2021, with the Asia Pacific becoming the second-largest investment destination (behind the US) for CPPIB.¹¹

The Asia Pacific remains an important region for Canadian investment, both inbound and outbound, as it contains some of the fastest-growing economies and manufacturing hubs in the world. The official data for 2020, compiled by Statistics Canada, reveals that Canadian investment in the Asia Pacific continues to make up only a small percentage of total Canadian outbound FDI stock (Figure 1). Despite the Asia Pacific’s economic importance to Canada, Canada’s outward investment in the region, as a percentage of total FDI, did not experience any drastic changes; it has remained around the 8% mark from 2003 to 2021. Conversely, Canada’s outward FDI in North America, which accounts for over 56% of Canadian FDI, has increased since 2003 to account for 61% of Canadian outward FDI flows in 2021.

FIGURE 1
Official Statistics on Canadian FDI Stock Abroad, 2003-2021



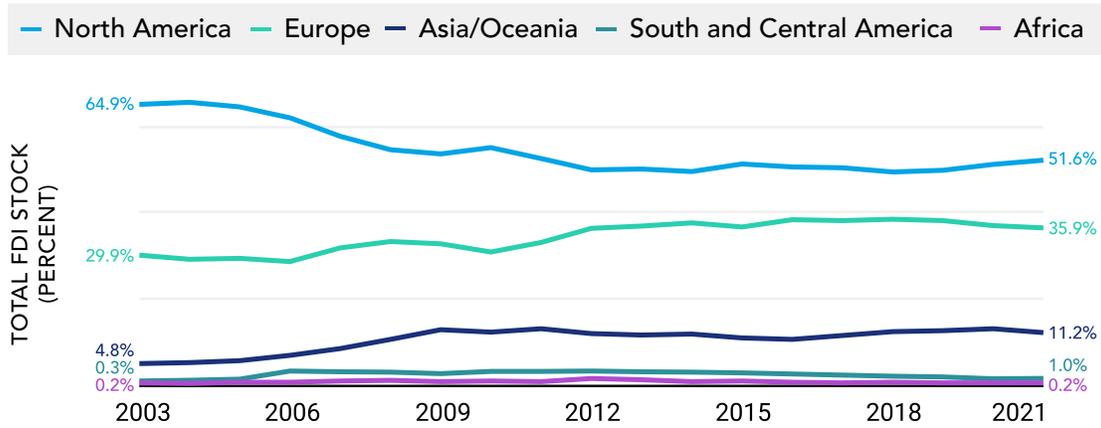
Source: Statistics Canada, Table 36-10-0008-01

Inbound FDI to Canada from Asia Pacific economies did not make up a significant portion of Canada’s total inbound FDI stock in 2021 (Figure 2).¹² The stock of Asia Pacific investment in Canada grew steadily from just under 5% (C\$17.8M) in 2003 to 11.2% (C\$121M) in 2021. Throughout these years, Asia Pacific economies ranked as the third-largest source of investment for Canada, after North America (with C\$559M, 52%) and Europe (C\$389M, 36%), which currently account for over 87% of Canada’s inward FDI stock.

Figure 3 shows that the five main investors from the region – Australia, China, Japan, Singapore, and South Korea – only made up 7.8% of total Canadian FDI stock in 2021. While Japan remains the largest of the five investors in terms of its FDI stock in Canada, its position has declined in 2021, from C\$36M in 2020 to C\$35M in 2021. Conversely, Australia became

FIGURE 2

Official Statistics on Canada's Inward FDI Stock, 2003-2021

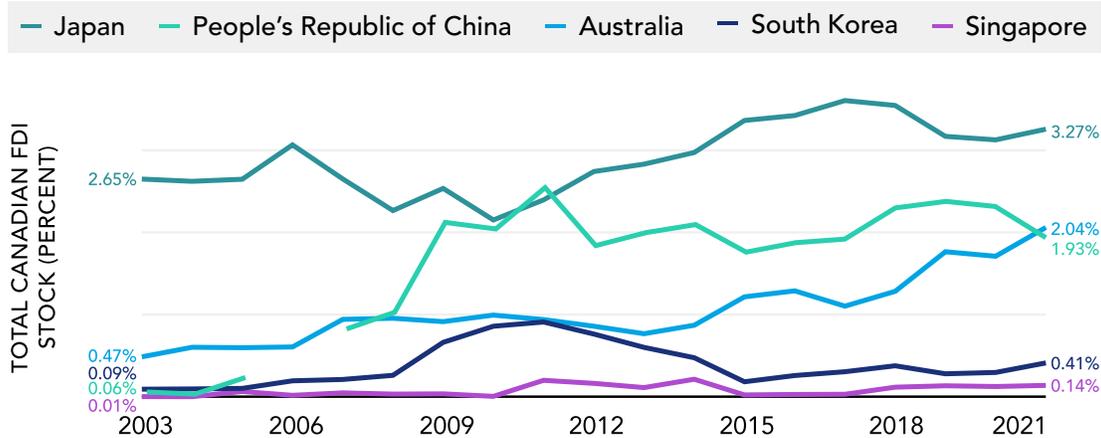


Source: Australian Bureau of Statistics, Japan External Trade Organization (JETRO), National Bureau of Statistics of China, Department of Statistics Singapore

the second largest in terms of Canada's FDI stock with C\$22M in 2021, surpassing China (with C\$20.8M), which now ranks as the third largest in terms of Canada's FDI stock. Singapore and South Korea have also expanded their FDI stock in Canada in 2021. South Korea's FDI stock in Canada went from C\$3.9M in 2020 to C\$4.4M, while Singapore's FDI stock in Canada increased only slightly from C\$1.5M in 2020 to C\$1.57M in 2021.

FIGURE 3

Official Statistics on Asia Pacific FDI Stock in Canada, 2003-2021



Source: Statistics Canada, Table 36-10-0008-01

Relying on the Asia Pacific Foundation of Canada's (APF Canada's) Investment Monitor data, this report outlines the major trends in FDI between Canada and the Asia Pacific in 2021. In doing so, the report provides a complement to the official statistics outlined above by examining the major inbound and outbound trends at the national level, noting the continued rise of strong investment ties with Asia Pacific countries, like Australia, and the growth in key Canadian sectors, such as the natural resources sector. The report then drills down to the province and city levels to pinpoint the specifics of overall trends in the past year. As supply chains and government policies will continue to shift in the coming year, the report concludes with projections on how the Canada–Asia Pacific investment landscape will develop in the coming years.

BOX 1

FDI Stock and Flow

When examining FDI, it is important to understand the difference between stock and flow. Stock refers to the total quantity of investment in an economy at a given time. Flow refers to movements of quantities in and out of the stock. There are two types of flows: an inflow marks an increase in the overall stock value, while an outflow marks a deduction. The difference between the two is referred to as net inflow.¹³ A positive net inflow indicates the stock is rising, whereas a negative net inflow indicates the stock is falling.¹⁴

On the whole, FDI stock values show the overall presence of FDI in an economy, whereas FDI flows signal the attractiveness of a destination economy and investor confidence in a given economy reflective of its economic development during a given period of time. For example, due to the pace of vaccinations in the second year of the global pandemic, more foreign investments were made both by Canadian investors in Asia Pacific economies and by Asian Pacific investors in the Canadian economy. These increases represent FDI inflows. As FDI inflows eclipsed FDI outflows in 2021, there was a positive net inflow of investment and thus a rise in the overall level of FDI stock. Together, these indicators can help policy-makers and investors gain a fuller picture of FDI trends as well as gaps and opportunities.

BOX 2

Cross-Border Investment and FDI

Foreign investments can be divided into two major groups: 1) foreign portfolio investment (FPI) and 2) foreign direct investment (FDI). Both groups are essential to global economic development and trade, but FDI is considered to be a more stable form of investment with long-term benefits.

Foreign Portfolio Investment

FPI is a short-term investment by a resident or enterprise of one economy into a financial asset of another economy. FPI may take the form of equity, debt securities, or loans but does not grant the investor a controlling stake in the enterprise. FPI investments are sometimes viewed as more volatile than FDI, since without a controlling stake or long-term interest in an asset, the investor can trade or liquidate the investment at any time for short-term return.

Foreign Direct Investment

FDI is a long-term or lasting-interest investment by a resident or enterprise of one economy into a tangible asset of another economy. An investment is considered to meet the threshold of FDI when it grants the investor at least 10% of the equity or voting shares of the enterprise. Meeting this threshold is deemed to grant the investor a degree of influence (a controlling interest in many cases) in the foreign enterprise, and is what distinguishes FDI from FPI.¹⁵

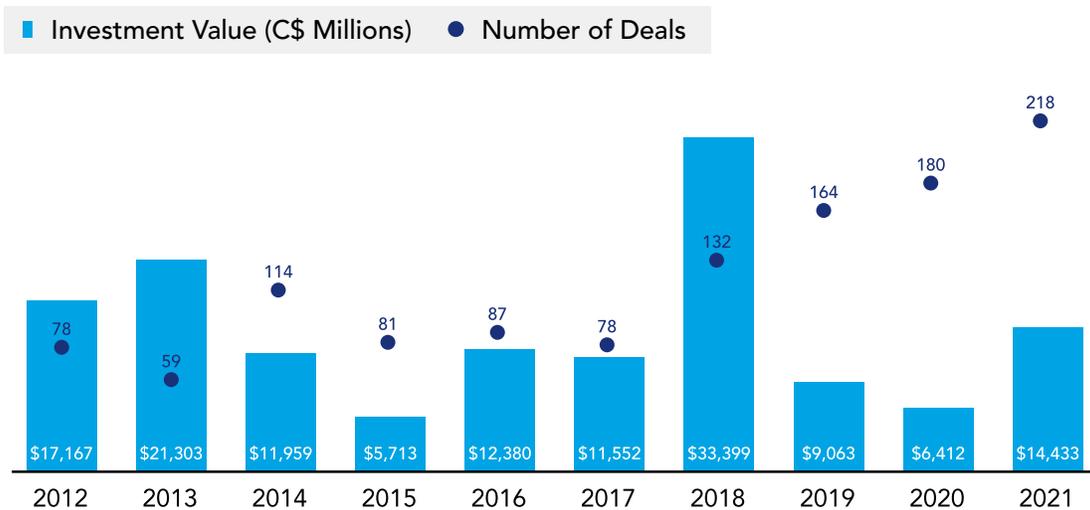
For the investor, direct investment is a long-term business undertaking with which comes more risk and commitment than foreign portfolio investments. This means that direct investment is not only a capital transfer, but also a transfer of technology, knowledge, management, and organizational skills. There are two broad categories of FDI: greenfield, which refers to the establishment of new operations in a foreign company, and mergers and acquisitions, which happen when one company combines with or takes over another.

CANADIAN INBOUND FDI

Investment Monitor data supplements official statistics by providing more granular and up-to-date data, with FDI information available for 2021. Based on the Investment Monitor data for 2021, FDI from Asia Pacific economies to Canada reached C\$14.4B, which marks a 125% increase from the previous year, when Asia Pacific economies invested C\$6.4B in Canada (Figure 4). Asia Pacific economies engaged in 218 investment transactions with Canada in 2021, up from 180 in 2020. Rising investment from the Asia Pacific is not only an indication of post-pandemic economic recovery, but also of the region's increasing wealth.

FIGURE 4

Asia Pacific Investment into Canada, 2012-2021



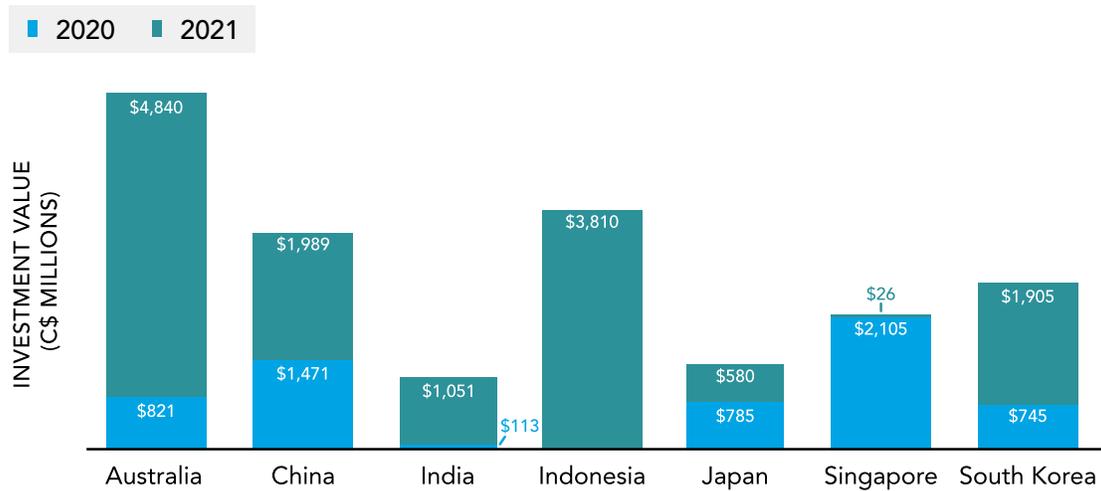
Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

TOP ASIA PACIFIC INVESTORS IN CANADA: AUSTRALIA, INDONESIA, AND CHINA

As shown in Figure 5, Australia became the top Asia Pacific investor in Canada in 2021, investing C\$4.8B through 51 transactions. Indonesia secured the second position on the list, bringing in FDI worth \$3.8B. 2021 marked the first time that Indonesia made it to the list of top five Asia Pacific investors since the start of our Investment Monitor tracking efforts in 2003. China was the third-largest investor in Canada with a total investment worth around C\$2B. South Korea and India secured positions as the fourth- and fifth-largest investors in Canada by investing C\$1.9B and C\$1.1B, respectively.

FIGURE 5

Asia Pacific Investment into Canada by Major Source Economy, 2020 vs. 2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

A comparison between the top Asia Pacific investors in Canada over the last two years signals that Canada’s investment relationship with China and South Korea has not experienced any significant changes. China was the second-largest source of Asia Pacific investment in Canada in 2020 with a total investment of C\$1.5B. South Korea was the fifth-largest Asia Pacific investor in 2020, bringing in FDI worth C\$745M into Canada. Japan also remained consistent in terms of its FDI in Canada in 2020. During that year, Japan invested C\$785M and was the fourth-largest source of Asia Pacific investment in Canada.

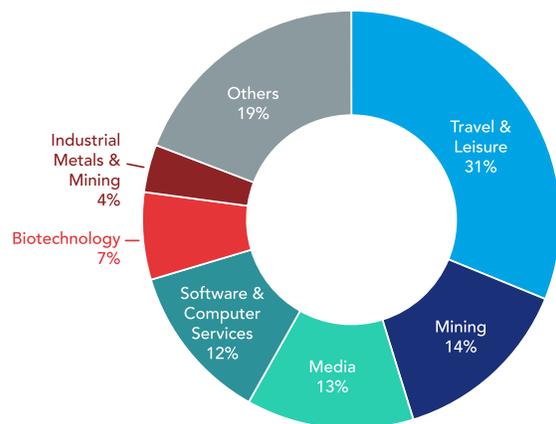
Conversely, Australia and Singapore have changed significantly in terms of their FDI flows into Canada over the last two years. Australia was already in the top five in 2020 but accounted for less inbound FDI (C\$821M) and ranked as the third-largest investor. Singapore was a significant investor in 2020 with an investment of C\$2.1B but did not make it into the top seven investors in 2021.

TOP INVESTMENT SECTORS: MINING SECTOR AT THE HELM OF ASIA PACIFIC INBOUND INVESTMENT TO CANADA

The pandemic has affected some industries more than others, with the travel and leisure sector experiencing the worst adverse effects. While it attracted the largest part of Canada’s investment from the Asia Pacific (C\$2B) in 2020 (Figure 6), it did not attract any significant investment in 2021. Similarly, biotechnology, which was the fifth-largest recipient in terms of FDI from the Asia Pacific in 2020, with C\$433M in investment value, has also not made it to the top five in 2021. On the other hand, Asia Pacific FDI in the mining sector has expanded during the pandemic. In 2021, the Canadian mining sector ranked as the largest recipient of

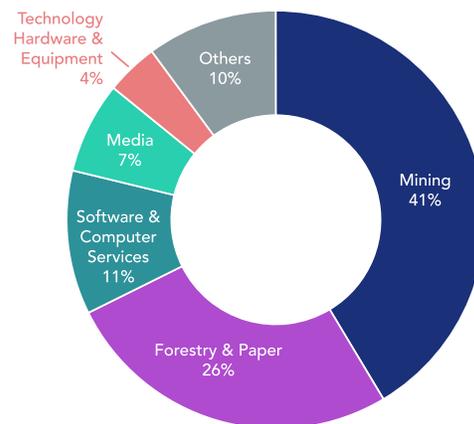
outbound FDI and received almost C\$6B from Asia Pacific economies through 16 transactions, which included a mix of mergers and acquisitions and greenfield investment deals (Figure 7). In comparison, the mining sector was the second-largest FDI-recipient sector in 2020, attracting a total investment of C\$901M through eight deals. Similarly, the software and computer services sector has also experienced growth, from C\$783M in 2020 to C\$1.6B in 2021, and the media sector grew from C\$830M in 2020 to C\$960M in 2021. Meanwhile, the forestry and paper industry became the second-largest sector, receiving C\$3.8B in FDI from the Asia Pacific in 2021, even though it was not among the top five largest industries in terms of FDI flows from the Asia Pacific in 2020.

FIGURE 6
Asia Pacific Investment into Canada by Sector, 2020



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

FIGURE 7
Asia Pacific Investment into Canada by Sector, 2021



Note: Percentages may not add up to 100 due to conversion
Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

NOTABLE INBOUND INVESTMENT DEALS

Last year, investment in the Canadian mining sector grew by 562% from the previous year in terms of investment value owing to several large acquisitions, mostly from Australia and China. For instance, Newcrest Mining, the largest gold producer in Australia, purchased the Brucejack gold mine in BC from a Canadian mining company, Pretium Resources, for C\$3.5B. The second-largest investment in the mining sector was the C\$960M acquisition of Neo Lithium Corp. by a Chinese state-owned firm, Zijin Mining Group. As part of this deal, Zijin Mining Group fully acquired Neo Lithium Corp.'s lithium mine in Argentina.

Forestry and paper became the second-largest sector in 2021, mainly due to one large transaction by an Indonesian firm. Indonesia's Sinar Mas Group-backed Paper Excellence acquired Domtar Corporation, which is a leading Canadian paper, pulp, and packaging

manufacturer. This C\$3.8B acquisition was the largest inbound FDI deal for Canada last year. In an effort to expand its manufacturing network in North America, Paper Excellence has been buying struggling paper mills across Canada since 2007, and the latest acquisition was its eighth investment in Canada.

BOX 3

Canada-China FDI Relations

Over the past year, Canada-China relations have remained strained and Canadian public opinion of China remained low. According to an October 2021 poll conducted by Nanos,¹⁶ Canadians were over three times more likely to say that relations between the Government of Canada and the Government of China should remain unfriendly rather than friendly. The poll also indicated that the majority of Canadians support banning Huawei Technologies Co. from Canada's 5G network and favour joining Western allies in policies to contain China. Relations remain complicated even after the release of Michael Spavor and Michael Kovrig last September.

Despite these political tensions, investment ties between Canada and China continue to be an important aspect of their bilateral economic relationship. China is Canada's top source of inbound FDI from Asia, with inbound investment from China totalling C\$92.8B between 2003 and 2021. This is almost triple the amount invested over the same period by Japan (C\$38.6B), Canada's second-largest Asia Pacific investor. In 2021, China invested just under C\$2B, a slight increase in comparison to 2020, indicating some recovery in FDI flows. However, inbound investment from China during the last year remained relatively low compared to values recorded in 2018 and earlier years (Figure 8). In 2021, China fell to the rank of the third-largest Asia Pacific investor in Canada, despite being the top investor in Canada cumulatively from 2003 to 2021.

At the provincial level, Ontario was the primary recipient of Chinese investment in 2021, attracting C\$1.6B in investments. This was largely due to two mining deals: Zijin Mining Group's C\$960M purchase of Toronto's Neo Lithium Corp.¹⁷ and Chifeng Jilong Gold Mining's C\$590M purchase of Toronto's Golden Star Resources. As a result of these deals, the mining sector was also Canada's top recipient of Chinese FDI, attracting more than 80% of total inbound investment and contributing to the dominance of Canada's natural resources sector.

FIGURE 8

Investment Flows Between Canada and China, 2012-2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

Canada Expands National Security Reviews for Inbound FDI, Including Enhanced Scrutiny for FDI From SOEs

In March 2021, Canada’s Minister of Innovation, Science and Industry issued updated Guidelines on the National Security Review of Investments, increasing scrutiny of inbound FDI relating to sensitive personal data, specified sensitive technology areas, critical minerals, and state-owned or state-influenced foreign enterprises.¹⁸ The move follows a trend of increasing global economic protectionism in response to heightened geopolitical tensions and the COVID-19 pandemic.¹⁹ Since the announcement, most of the federal national security reviews related to the implementation of these Guidelines in Canada have involved Chinese investors, many of which are considered state-owned or state-influenced enterprises.²⁰ However, of the 42 Chinese deals filed by investors for review under the Investment Canada Act (ICA) in 2020-2021, only two proposed transactions (accounting for less than 5%) were prohibited or unwound by the Canadian government.²¹ Although the ICA’s annual report²² does not identify the parties subjected to national security review, these transactions may be parsed from the public record.²³ Public records indicate that both prohibited transactions were by Chinese SOEs – China Mobile International (Canada) Inc.’s required divestiture²⁴ and the rejected sale of TMAC Resources Inc.²⁵

In December 2020, the federal government rejected the sale of Canada’s TMAC Resources Inc. to a Chinese state-owned company, Shandong Gold Mining Co. Ltd., due to the strategic project area in Nunavut. TMAC’s Doris mine is located only 100 kilometres

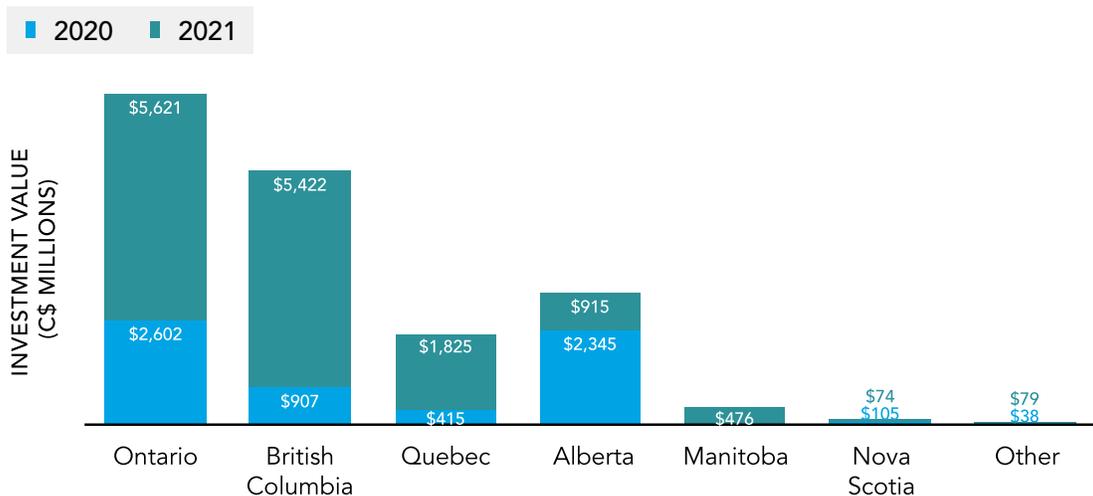
from a North American Aerospace Defense Command (NORAD) North Warning System radar station, a part of a chain of key infrastructure in the North that gathers military information. However, last year's acquisition of Neo Lithium by Zijin Mining, also a Chinese SOE, was permitted by the federal government without a formal national security review.²⁶ Neo Lithium's assets are located in Argentina, though, which may point to geostrategic salience as a major consideration in the government's approach. The successful acquisition has nonetheless stirred controversy around how vigorously the ICA's national security reviews should be applied. As the new guidelines reach their one-year anniversary, firms on both sides of the Pacific will be watching the review mechanism's applications closely.

CANADIAN INBOUND INVESTMENT TRENDS AT THE PROVINCIAL LEVEL

In 2021, four Canadian provinces – Ontario, BC, Quebec, and Alberta – accounted for 96% of total inbound investment from the Asia Pacific (Figure 9). Ontario received the most foreign direct investment flows from the Asia Pacific with C\$5.6B invested, followed by BC, which received C\$5.4B. These two provinces alone received 77% of total inbound investment in 2021 (Figure 10), significantly outpacing Quebec and Alberta, which received C\$1.8B and C\$915M, respectively, in investment flows from the Asia Pacific region. Despite the almost C\$1B difference in investment value between Quebec and Alberta, the number of transactions was nearly equal, with Quebec receiving 26 investments and Alberta receiving 24.

FIGURE 9

Asia Pacific Investment into Canada by Province, 2020 vs. 2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

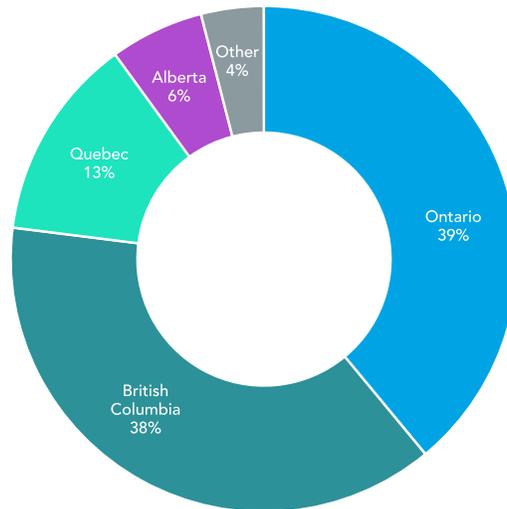
The increase in Canada’s inbound investment in 2021 was especially clear at the provincial level. For all of the Canadian provinces, except Alberta, investment more than doubled in 2021. Alberta was the only province to experience a year-over-year decrease, having received C\$2.3B in inbound Asia Pacific investments in 2020. Despite the strong investment year for Alberta in 2020, these numbers remain far below 2021 levels. Ontario saw more than twice as much investment in 2021 as Alberta did in 2020. British Columbia and Quebec experienced

83% and 77% growth year-over-year, while Manitoba, having received no FDI in 2020, rebounded with C\$476M invested in the province. While it may not be reasonable to expect a similarly large increase in the following years, the provincial-level growth attests to the re-opening of the global economy.

2021 is consistent with the trend in provincial inbound investment from Asia Pacific countries in Canada, which appears to favour the same provinces. As data on provincial-level investment between 2003 and 2021 indicate, BC, Alberta, Ontario, and Quebec attract the most Asia Pacific investment on average (Figure 9). Alberta has received the most investment from the Asia Pacific overall, with C\$76.7B invested in the province in total. BC and Ontario follow with C\$68.9B and C\$51.9B in FDI inflows, respectively, and Quebec comes in fourth overall with C\$13.3B in inbound investment from the Asia Pacific.

FIGURE 10

Asia Pacific Investment into Canada by Province, 2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

However, provincial investment inflows from the Asia Pacific also vary over the years. There have been some outlier years when one of these four provinces was not among the top four destinations for inbound investment. For example, in 2019, Alberta was not among the top four, primarily due to a lack of substantial mining investment. Furthermore, in 2016 Saskatchewan received more inbound investment than Quebec, due to a C\$1.1B oil investment by Husky Energy, which was a subsidiary of Hong Kong-based CK Hutchison at the time. However, in general, BC, Alberta, Ontario, and Quebec receive the most inbound investment from the Asia Pacific.

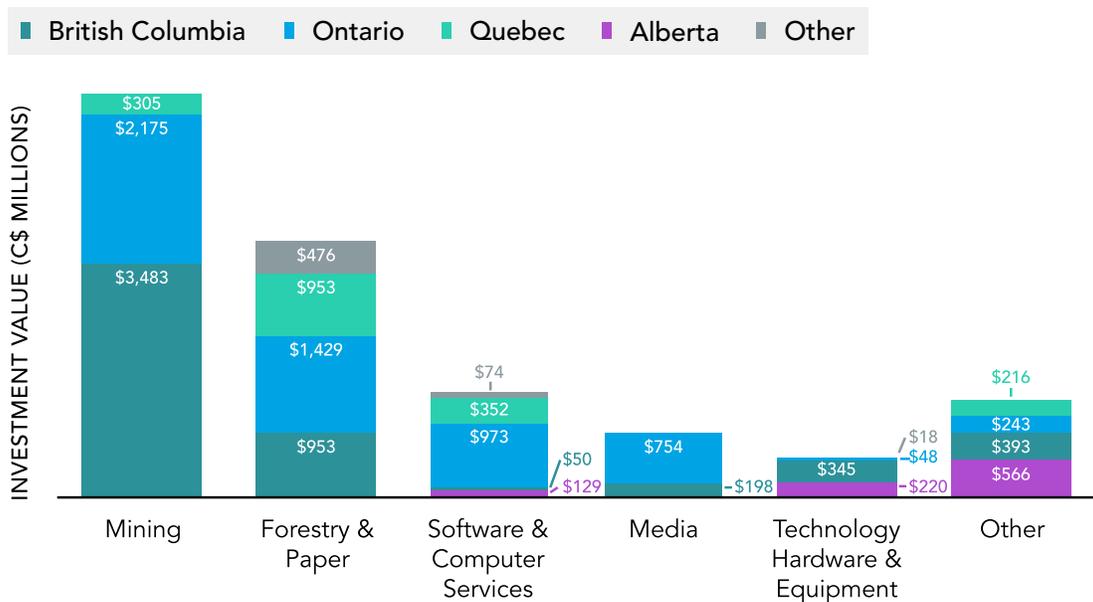
SECTORS

Asia Pacific investment in Canadian provinces in 2021 was concentrated in three sectors: mining, forestry and paper, and software and computer services (Figure 11). The mining sector, which received the most FDI from the Asia Pacific, boomed in Ontario and BC in 2021 as it obtained the most investment from the Asia Pacific region, with C\$2.2B worth of mining investments in Ontario and C\$3.5B in BC. Combined, the mining investments in these two provinces accounted for 95% of total inbound mining investments from the Asia Pacific, with C\$305M worth of investments in Quebec making up the remaining 5%. For BC, mining and chemicals industries made up 64% of the total inbound investment from the Asia Pacific region. Interestingly, despite mining being a key sector for Asia Pacific investment in Alberta, there were no notable mining deals in the province this year. Instead, the top sectors for Alberta, in terms of FDI from the Asia Pacific region, were the industrial engineering and technology sectors, which received C\$250M and C\$220M, respectively.

The Canadian forestry and paper sector was the second-largest recipient of FDI from the Asia Pacific region in 2021. Ontario was the single largest recipient of this investment with C\$1.4B, followed by BC and Quebec, with both receiving around \$C953M. The surge in forestry investment is the result of a large transaction by Pearl Merger Sub Inc., owned by the Indonesia-based Sinar Mas Group, in which the group acquired eight Domtar Inc. pulp and paper production sites across Canada for C\$3.8B.

FIGURE 11

Asia Pacific Investment into Canada by Province and Major Sector, 2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

CITIES

At the city level, Vancouver received the most investment from the Asia Pacific region in 2021, with C\$3.7B invested through 33 deals (Figure 12). The significant amount invested is largely due to Australian gold miner Newcrest Mining's C\$3.5B acquisition of Vancouver's Pretium Resources.

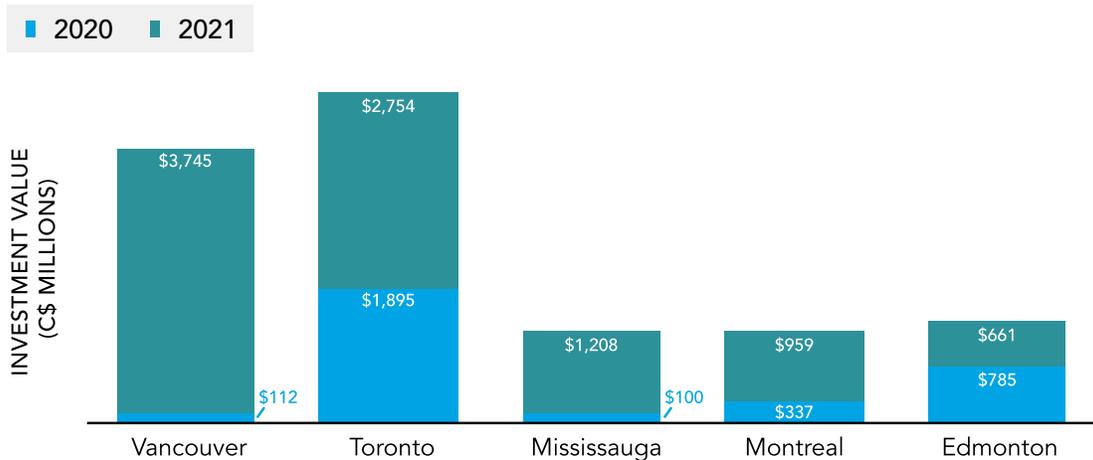
The only cities in Ontario to receive notable investments from the Asia Pacific region in 2021 were Toronto and Mississauga. Toronto received C\$2.8B through 48 deals, C\$1.8B of which went to the mining industry, and Mississauga received C\$1.2B through 17 deals. The largest sector in terms of FDI inflows for Mississauga was the technology sector, which received C\$652M.

In the province of Quebec, Montreal received by far the most investment from the Asia Pacific region in 2021, with C\$959M invested in the city. Around 50% of this investment was in the agriculture and forestry sector.

In Alberta, Edmonton attracted the most investment, with C\$661M invested through five deals. Over one-third of the total amount invested in Edmonton was through one transaction in the industrial engineering sector worth C\$237M, while the technology sector reached a close second place with one C\$220M transaction in the microtechnology industry.

FIGURE 12

Asia Pacific Investment into Canada by Major City, 2020 vs. 2021



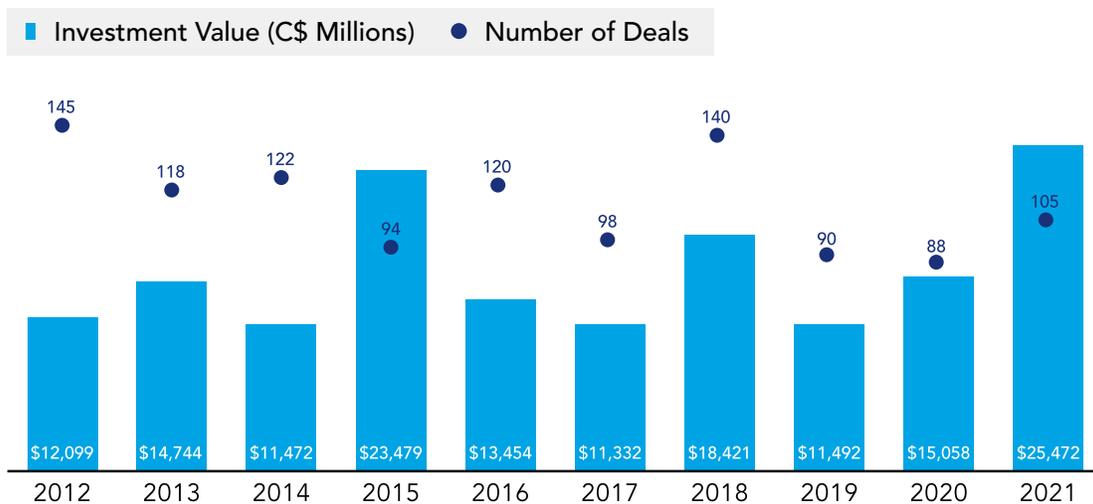
Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

CANADIAN OUTBOUND FDI

The second year of the pandemic saw a strong rebound in outbound FDI flows from Canada to the Asia Pacific region. Canadian outbound FDI to the Asia Pacific region increased by almost 70% in 2021, from C\$15.1B in 2020 to C\$25.5B in 2021, surpassing pre-COVID-19 investment levels (Figure 13). Corresponding to the rise in outbound FDI flows, the number of outbound investment deals also increased, from just 88 deals in 2020 to 105 in 2021. The growth of Canadian investment in the Asia Pacific, along with that observed in inbound FDI, follows the same pattern as global FDI flows, which increased in 2021.²⁷

FIGURE 13

Canadian Investment into the Asia Pacific, 2012-2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

Over the past 19 years, Canadians have invested over C\$264B in the Asia Pacific region through a total of 2,487 transactions. The year 2021 marks Canada's highest outbound investment flow into the Asia Pacific region since APF Canada began tracking FDI flows with the Investment Monitor in 2003. Indeed, taking the past year's FDI rebound into account, 2019 to 2021 represents a sharp rise in Canadian outbound investment to Asia Pacific with a total of C\$52B, almost C\$9B more than the flows observed in 2016 to 2018, despite continued market disruption due to the COVID-19 pandemic.

TOP CANADIAN INVESTMENT DESTINATIONS: AUSTRALIA, INDIA, AND TAIWAN

Last year’s outbound FDI flows from Canada to the Asia Pacific region were mainly concentrated in a single destination, Australia, which received 60% of Canada’s total FDI in the region. Canadian outbound FDI flows also went to other countries in the region, which cumulatively received only 40% of Canadian outbound FDI in 2021. Rounding out the year’s top 10 destination economies for Canadian outbound FDI are India, Taiwan, Japan, Indonesia, South Korea, New Zealand, China (Mainland), Hong Kong, and Singapore (Figure 14). For the most part, Canadian outbound FDI flows to these destinations decreased from 2020 to 2021.

Australia was Canada’s top destination for outbound investment in 2021, via 34 deals and C\$15.3B invested. Australia also saw the largest year-over-year increase in Canadian outbound investment, by both deal count and investment value. From 2020 to 2021, Canadian outbound FDI to Australia increased by 532%, marking a rapid expansion in bilateral economic ties between the two countries. This is consistent with Canada’s overall outbound FDI trends, wherein outbound investment flow to Australia has outpaced flows to other Asia Pacific countries.

FIGURE 14

Canadian Investment into the Asia Pacific by Major Destination Economy, 2020 vs. 2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

Canadian cumulative investment in Australia from 2003 to 2021 stands at C\$90B, almost double the value of Canada’s cumulative outbound FDI in its second-largest destination economy, China, which received C\$46.2B in Canadian investment. During this 19-year

period, Australia, together with China and India (which is in third place in terms of Canadian cumulative outbound FDI) accounted for over 65% of total Canadian investment into the Asia Pacific region.

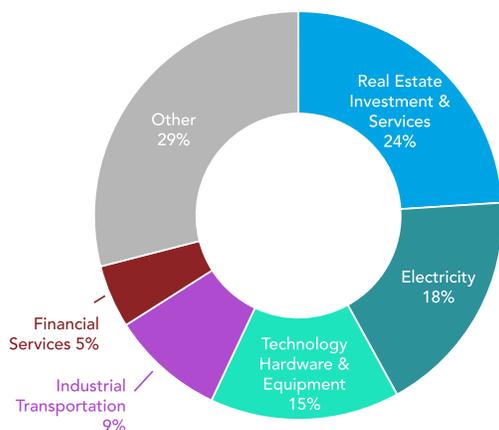
Receiving C\$3.4B in 2021, India ranked as Canada’s second-most preferred destination for outbound investment. Displaced by Australia last year, India was Canada’s top destination economy in 2020, receiving C\$5.6B, which was more than double the amount of Canadian investment in the year’s second-ranked destination, Australia. Despite the year-over-year decrease in Canadian outbound FDI to India, the country retains its position as the second-largest recipient of Canadian outbound FDI over the last decade.

While China has cumulatively received the second-largest amount of outbound FDI from Canada since 2003, this was notably not the case in 2021. During the last year, Canadian outbound investment flows to China were a mere C\$218M, making China the eighth-largest recipient of Canadian outbound FDI in the Asia Pacific in 2021. This trend is consistent with a continuous decline in Canadian investment in China since 2018.

TOP INVESTMENT SECTORS: CANADIAN OUTBOUND FDI ACROSS INDUSTRIES IN THE ASIA PACIFIC

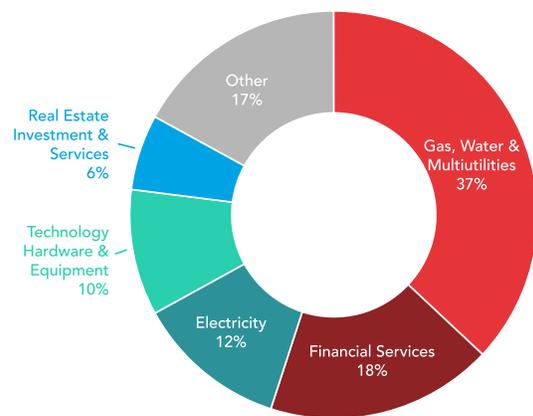
Last year brought significant changes in Canada’s outbound FDI distribution across industrial sectors in the Asia Pacific region. While Canadian investment in the region continues in real estate investment and services, electricity, and industrial transportation (Figure 15), Canadian investors diversified the sectoral distribution of their investments in the Asia Pacific region in 2021. The top five sectors – utilities, financial services, electricity, technology, and real

FIGURE 15
Canadian Investment into the Asia Pacific by Sector, 2020



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

FIGURE 16
Canadian Investment into the Asia Pacific by Sector, 2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

estate – received 83% of Canadian outbound FDI in 2021. Canadian outbound investment in the Asia Pacific region last year overwhelmingly favoured gas, water, and utilities, with the sector receiving 37% of Canada’s total outbound investments. This surge, however, is solely attributable to the C\$9.3B binding takeover of the Australian natural gas transmission company, AusNet Services, in November, and therefore may not be indicative of future trends.

NOTABLE INVESTMENT DEALS

Deals that drove Canada’s surge in outbound FDI include a C\$2.4B investment in BAI Communications Pty Ltd, an Australian communications infrastructure service provider, by the Canada Pension Plan Investment Board, and a C\$9.3B takeover of an Australian natural gas transmission company, AusNet Services, by a consortium including Brookfield Asset Management, Alberta Investment Management Corporation, the Investment Management Corporation of Ontario, and the Healthcare of Ontario Pension Plan.

A few Canadian asset management companies and pension funds were responsible for most of the rebound in FDI flow to the Asia Pacific in 2021. Notably, CPPIB tops this list with C\$5.9B invested largely in the technology, finance, and retail sectors. CPPIB is followed by Brookfield Asset Management, Alberta Investment Management Corporation, the Investment Management Corporation of Ontario, and the Healthcare of Ontario Pension Plan, each with C\$2.3B concentrated in the utilities sector.

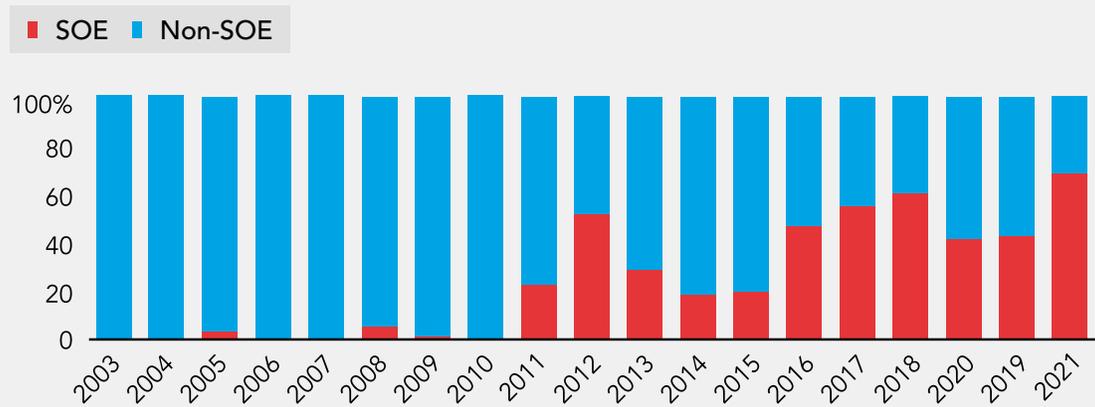
BOX 4

SOE vs. Non-SOE Investment

In 2021, investment by Canadian state-owned enterprises (SOEs)²⁸ in the Asia Pacific more than doubled, accounting for 68% of Canada’s total investment in the region. Meanwhile, investment by SOEs from the Asia Pacific into Canada only accounted for 7% of inbound investment in 2021. Historically, SOEs have played a significant role in both outbound and inbound investment. On average, since 2003, 37% of Canada’s inbound investment from the Asia Pacific region has been from SOEs. Over the same period, Canadian SOEs accounted for 27% of investment in the Asia Pacific. Outbound investment from Canadian SOEs did not take off until 2011, but in the last five years, Canadian SOEs have become more active investors in the Asia Pacific region (Figure 17). Inversely, a decline in inbound investment from Asia Pacific SOEs began in 2014 before a slight resurgence from 2018 to 2020 (Figure 18).

FIGURE 17

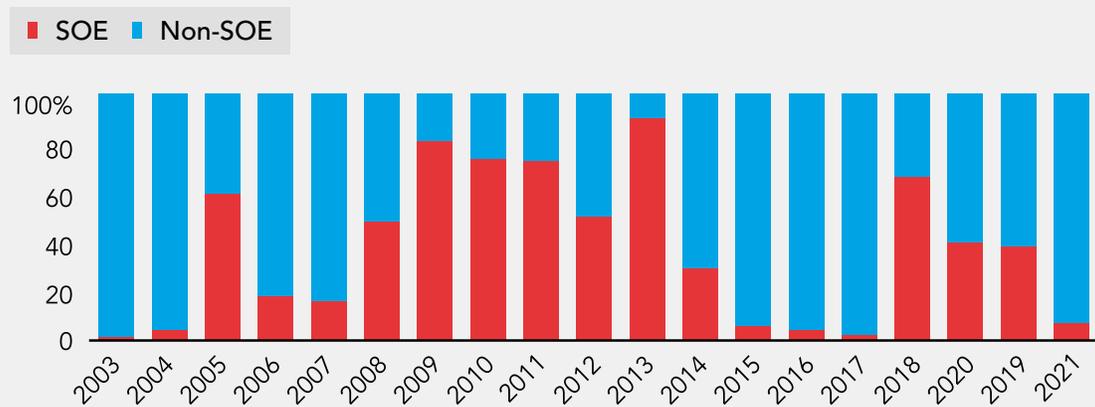
Canadian SOE Investment into the Asia Pacific, 2003-2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

FIGURE 18

Asia Pacific SOE Investment into Canada, 2003-2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

Top Destinations for SOEs’ Inbound and Outbound FDI

In 2021, Canadian SOEs invested \$17.3B in the Asia Pacific region. Australia was the top investment destination for Canadian SOEs in terms of investment value, investing C\$10.2B in 2021. India dominated Canada’s rankings in terms of the number of deals concluded by Canadian SOEs in the Asia Pacific region during the past year, with 11 deals. In comparison, Australia concluded only four investment deals with Canadian SOEs. India received the second-most overall Canadian FDI with C\$3.1B, which is less than one-third of the FDI invested by Canadian SOEs in Australia. Taiwan ranked third in terms of investment by Canadian SOEs, with \$1.7B invested.

Based on these trends, Australia was the main beneficiary of the growing investment made by Canadian SOEs in the region in 2021, with the FDI values growing by approximately 440% from 2020 as SOEs' investment increased from C\$1.9B to \$10.2B in 2021. This stark increase has been influenced by a few highly valued deals: Australia received seven investment deals, five of which are valued at more than C\$1.5B each. Aside from the AusNet deal, the Canada Pension Plan Investment Board acquired BAI Communications Pty Ltd for C\$2.3B. The Ontario Teachers' Pension Plan Board and the Public Sector Pension Investment Board (PSP Investments) also acquired Spark Infrastructure for \$1.5B each, totalling \$3.1B. These significant investments by Canadian SOEs are unprecedented but not unforeseen as Australia has ranked consistently as the top destination for Canadian SOE investment since 2018. This growth in investment with a few large deals may be anomalous, but it is indicative of a clear pattern of growing investment in Australia.

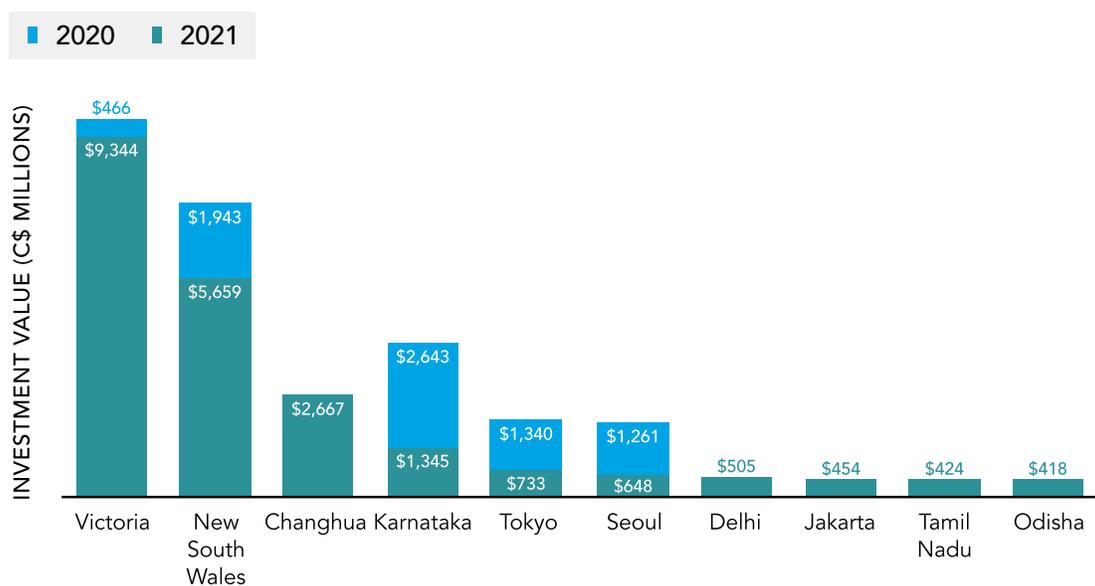
Canadian state-owned pension funds invested approximately C\$17.3B in the Asia Pacific region in 2021. CPPIB, one of Canada's largest SOEs, invested C\$5.9B in the Asia Pacific in 2021, the largest amount invested by any Canadian SOE in the region. This is a significant increase from CPPIB's total investment of C\$1.4B in 2020. CPPIB's increased investment reflects its 2025 investment strategy. The primary objective of CPPIB's strategy is to diversify its geographic reach by increasing investment in Asia Pacific countries.²⁹ Based on current investment data, CPPIB's 2025 plan seems to be effective as its investment in the Asia Pacific has increased by 12% since the policy's introduction in 2019. Second to CPPIB, Caisse de dépôt et placement du Québec invested \$2.5B. While CPPIB and CDPQ have been actively investing in the Asia Pacific for years, the other pension plans made their first Asia Pacific investments in 2021. Among these new investors in the region are the Healthcare of Ontario Pension Plan and the Ontario Teachers' Pension Plan Board.

While 2021 saw a remarkable increase in FDI by Canadian SOEs in the Asia Pacific region, SOEs based in the Asia Pacific barely made any inbound investments in Canada. In 2021, SOEs from the Asia Pacific region only invested C\$960M in Canada, compared to the C\$2.4B they invested in 2020 and the C\$3.6B invested in 2019. The C\$960M comes from a single transaction by a Chinese SOE, Zijin Mining Group, which acquired the Canadian mining company Neo Lithium Corp., whose primary assets are in Argentina. Chinese SOE investment in Canada from 2005 to 2013 represented on average 96% of Chinese investment going into Canada. However, since 2013, investment in Canada by Chinese SOEs has declined. Although Canada-China relations have been strained since 2018, the general downward investment trend by Chinese SOEs began long before these political tensions emerged.

CANADIAN OUTBOUND INVESTMENT TRENDS AT THE PROVINCIAL LEVEL

Canadian outbound investment observed at the provincial and state level remains consistent with 2021 national trends and overall outbound investment trends since 2003. In 2021, Australia became the overall largest recipient of Canadian investment (Figure 19). Thus, Australian states also topped the list of top destinations for Canadian investment at the provincial and state levels. Taiwan’s county of Changhua was the third-largest recipient of Canada’s outward FDI, marking its first appearance among the top 10 investment destinations for Canada. The Indian states of Maharashtra and Karnataka, which dominated the top investment destination rankings in 2020, were replaced by Australian states – Victoria and New South Wales – in 2021. Victoria received C\$9.3B and New South Wales C\$5.6B, significantly more than the distant third, Changhua, which only received C\$2.7B. India’s states of Karnataka, Delhi, and Tamil Nadu populate the top 10 destinations for Canadian FDI, but Australian states are the clear leading recipients, accounting for 60% of Canada’s outbound FDI in 2021.

FIGURE 19
Canadian Investment into the Asia Pacific by Province, 2020 vs. 2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

The majority of Canadian outbound investment in Australia in 2021 went to Victoria and New South Wales. The rise of Canadian investment in the Australian state of Victoria stems from one major merger deal, the joint merger acquisition of AusNet. New South Wales saw 11 deals of varying value, which in total brought it to second place in terms of the value of Canadian FDI. The largest deals in New South Wales were the acquisition of BAI Communications Pty Ltd by CPPIB, valued at C\$2.3B, and the acquisition of Spark Infrastructure by the Ontario Teachers' Pension Plan Board and PSP Investments, valued at C\$3.1B.³⁰ Although Canada's outbound FDI in 2021 was concentrated in Victoria and New South Wales, with both states seeing the most significant Canadian investments since our database begins in 2003, the investment in these states is consistent with the overall increase of Canadian outbound investment in Australia discussed earlier in this report.

Chinese provinces are notably absent from 2021's top provincial destinations for Canadian outbound FDI for the first time since our data begins in 2003. In 2020, Beijing (municipal region) ranked as the 9th province in terms of the value of Canadian investments into the Asia Pacific region, receiving C\$358M. In 2019, Chongqing (municipal region) received C\$836M and Shanghai (municipal region) received C\$261M, placing them in the 5th and 10th positions, respectively, in terms of Canadian investment outflows into the Asia Pacific for that year.

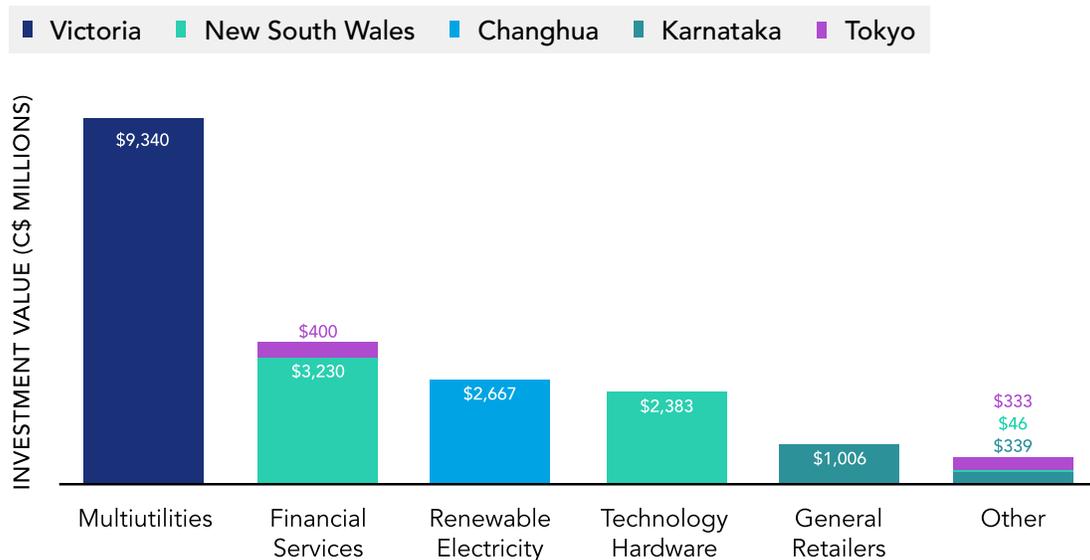
Meanwhile, in 2021, China received C\$217M overall. During this year, Guangdong province received the most Canadian outbound investments with only C\$82M going to the province. This shows a clear decrease in investment compared to 2020 and 2019. Hong Kong was also missing from the 2021 top Canadian FDI destinations list in the region for the first time since our database began.³¹ This is notable because Hong Kong has historically been among the annual top 10 destinations for Canadian FDI. Hong Kong has received the fourth-most investment from Canada for all years since 2003. However, in 2021, Hong Kong only received C\$205M in investment, compared to C\$682M in investment in 2020, which placed Hong Kong as the eighth-largest overall investment recipient. The absence of Chinese provinces in the top 10 provincial destinations for Canadian outbound FDI in 2021 aligns with the general decreasing trend of Canadian investment in China and Hong Kong.

Some provincial trends from 2020 carried on into 2021. Seoul Special City (South Korea) and Tokyo Prefecture (Japan) remained on the list of top 10 destinations for Canadian FDI in 2021 following their appearances on this list in 2020.³² In 2020, Tokyo Prefecture and Seoul Special City made their first appearances among the top 10 investment destinations for Canadians in the Asia Pacific region since 2016. The emergence of new states on the list of top 10 investors indicates that Canadian investors are diversifying their investments across Asia Pacific provinces.

SECTOR ANALYSIS

FIGURE 20

Canadian Investment into the Asia Pacific by Top 5 Provinces and Major Sector, 2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

In 2021, Canadian outbound FDI was concentrated in utilities, financial services, and renewable electricity (Figure 20). Together, these three sectors accounted for 67% of total investment in the region in 2021. Financial services and renewable electricity have been long-standing targets for Canadian investment, but the significant growth in investment in utilities stands out. Utilities investment accounted for C\$9.3B, 37% of Canada's FDI in 2021, but the majority of this growth can be attributed to a single deal, the aforementioned acquisition of AusNet. Utilities have not been a prominent sector for FDI in previous years; the last major investment in this sector was C\$448M in 2019.

Meanwhile, financial services have been a consistent target sector for Canadian investors in the region. Investment in the Asia Pacific's financial sector quadrupled in investment value from 2020 to 2021. In 2021, Canadian investors completed eight deals worth C\$4.5B. Four of these investments were in New South Wales, Australia. The C\$3.1B acquisition of the electricity investment fund Spark Infrastructure in New South Wales was discussed in the previous section. The third highest valued sector in 2021 was renewable electricity. Canadian investors completed four deals in this sector, valued at \$3.1B. The largest deal in this sector was completed by Caisse de dépôt et placement du Québec, which acquired 50% of Ørsted's Greater Changhua Offshore Wind Farm for \$1.7B. This deal alone accounted for 54% of investment in this sector. Assessing the overall trends for 2021, Canadian investment

was highly concentrated in a few sectors with a few larger deals. This is similar to the 2020 Canadian investment trends in the Asia Pacific region, as investment was highly concentrated.

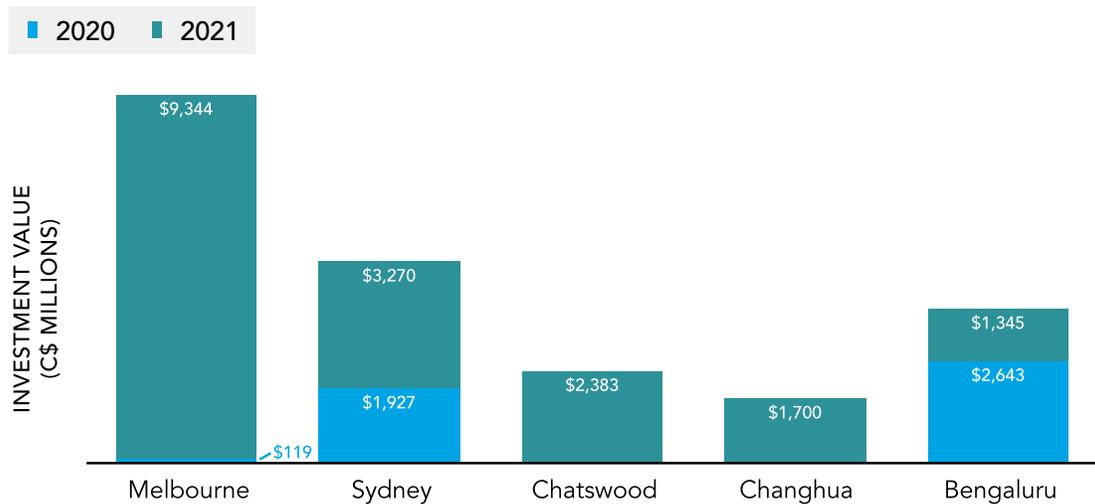
CITIES

At the city level, Australian cities dominated the top five rankings (Figure 21). Melbourne received the most investment from Canada in 2021, with C\$9.3B through two deals, the largest of which is the AusNet deal discussed earlier. Sydney received the second-largest share of Canadian FDI with almost C\$3.3B, followed by Chatswood with approximately C\$2.4B worth of investment coming from Canada. The fourth-largest recipient was the Taiwanese city Changhua with Canadian investment for 2021 standing at C\$1.7B. Rounding out the top five, Bengaluru was the fifth-largest recipient of Canadian FDI, with C\$1.3B in investment deal value.

In 2021, Canadian investment in Sydney, Bengaluru, and Tokyo was dominated by the financial sector. For example, CPPIB invested C\$400M in Tokyo’s financial sector. As noted earlier, Canadian investment in Melbourne focused on the utilities sector, while in Chatswood Canada’s major investment deal was in the telecoms industry. In Bengaluru, Canadian investors, including Lululemon Athletica, have been predominantly enticed by consumer goods and services.

FIGURE 21

Canadian Investment into the Asia Pacific by Major City, 2020 vs. 2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

LOOKING FORWARD

OVERALL INVESTMENT TRENDS

The COVID-19 crisis increased global economic instability.³³ Instability generally has the effect of increasing uncertainty, which can discourage investment as it increases the risk investors take on when they invest in a foreign market. The COVID-19 pandemic contributed to the global economic instability primarily through the sudden fluctuation in demand and supply of goods and changes in economic and fiscal policies. While most countries have begun to reopen their economies and treat COVID-19 as an endemic virus, the economic disruption of the pandemic will likely endure. IMF forecasts moderate economic growth in 2022 and a drop in GDP to 3.8% by 2023.³⁴ Despite the pandemic, Investment Monitor data suggest that 2021 FDI flows between the Asia Pacific and Canada exhibited resilience as bilateral investment flows exceeded 2020 flows.

Despite the rebound in FDI flows between Canada and the Asia Pacific, foreign investors next year may act more cautiously due to high rates of inflation, which generally disincentivize cross-border investment flows. Pandemic-related inflation is one of the trends that investors and policy-makers should watch for in 2022. Canada has been experiencing inflation triggered by the pandemic since mid-2021. During the early months of the pandemic, inflation rates in Canada plummeted. They were at near-zero levels in March 2020 and remained low until April 2021, at which point they began to return to pre-pandemic levels, reaching 6% by the end of 2021.³⁵ Canada's inflation rates continue to rise in 2022. In January 2022, the inflation rate, measured by the consumer price index (CPI), jumped to 5.1%, the highest its been since September 1991.³⁶ RBC economic analysts forecast a return to a 1% inflation rate by the fourth quarter of 2023,³⁷ while the Bank of Canada expects CPI rates to remain above pre-pandemic rates until the end of 2022, but note the possibility of them returning to 2% by 2024.³⁸

Pandemic-related inflation has been less of a concern in the Asia Pacific compared to Canada and other Western countries. World Economic Forum data shows that inflation in emerging and developing (EMDE) Asian countries was only 2.9% in 2021, which is significantly lower than the global average of 6.6% for EMDEs.³⁹ Even developed Asian economies only experienced an inflation rate of 1.5% on average, compared with the global average of 3.3% for advanced economies.⁴⁰ Inflation is, however, expected to spread into the Asia Pacific region because of the Ukraine conflict, which poses an inflationary risk in Asia with rising oil, energy, and food costs.⁴¹ The war in Ukraine has also contributed to instability in global stock markets as a result of investor uncertainty,⁴² which may have a negative impact on future FDI flows. High rates of inflation generally cause foreign investors to act more cautiously, fearing that

their assets' value may depreciate due to inflation and changes in currency rates. Thus, changes in inflation rates may result in short-term reductions of foreign investment as a reaction to an economic shock, but a lasting economic instability may also cause investors to look more inward.⁴³

Supply chains have also been significantly impacted by the pandemic. The rearrangement they have undergone, and continue to undergo, may have a negative effect on Canada–Asia Pacific investment flows. At the start of the pandemic, there was a push in Canada⁴⁴ and the Asia Pacific⁴⁵ to develop domestic industries and re-shore companies that were located abroad as shortages in PPE, medical goods, and necessities mounted due to supply chain disruptions.⁴⁶ For example, when Japan experienced supply shocks due to a reduction in inputs from China in February 2020, the government offered a re-shoring subsidy of up to two-thirds of the costs for large companies and three-quarters of the costs for SMEs to reduce any potential supply shocks related to sudden changes in trade policy by foreign governments in the future.⁴⁷ While re-shoring can be a good way to avoid the extensive shortages in medical goods that many countries experienced during the pandemic, it means that multinational corporations (MNCs) might be unable to maintain their comparative advantage, which they attained by locating in economies where they could source cheaper products or labour. The inability of MNCs to retain their global supply chain structures renders the economy less efficient, and, according to a study by the OECD, makes MNCs more susceptible to supply chain shocks and thereby less attractive to investors.⁴⁸

Inflation, supply chain disruptions, and global economic instability will remain pressing concerns for Canada-Asia investment relations in the future. Despite these potential barriers to Canada–Asia Pacific investment flows, the gradual recovery of the global economy (and maybe the 2021 Investment Monitor data) suggests that Canada's investment relationship with the Asia Pacific will continue to grow and deepen. The following sections provide an overview of our expectations for inbound and outbound investment trends in the coming years to help Canadians navigate and better understand the changing investment relationship between Canada and the Asia Pacific.

INBOUND INVESTMENT TRENDS

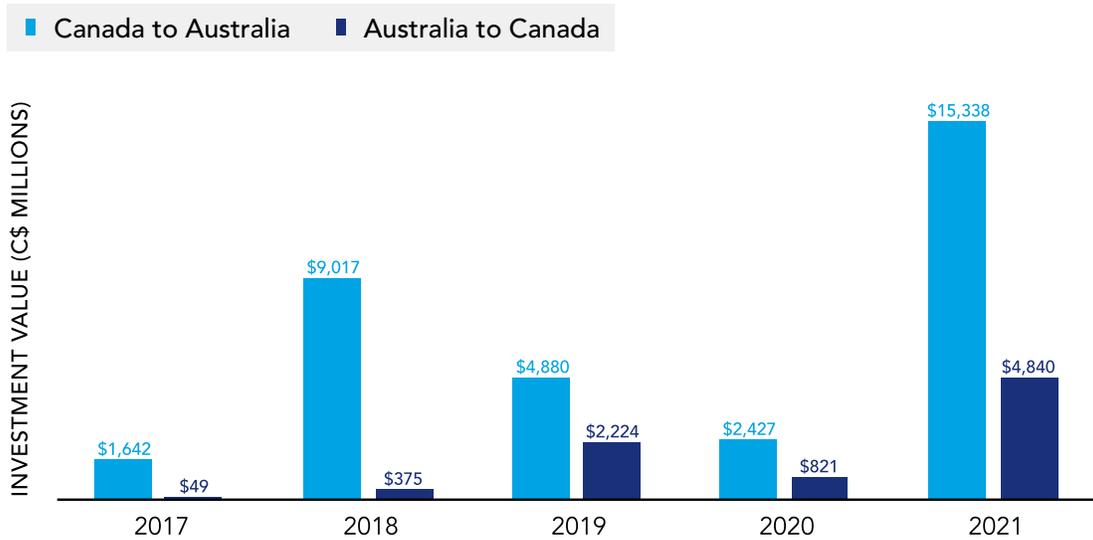
Investment Monitor data shows that Asia Pacific investors have expanded their activities in Canada. Between 2003 and 2021, Canada received a total of C\$225.2B in investments from Asia Pacific economies through 1,664 deals. In 2021, Canada received C\$14.4B from Asia Pacific investors. The majority of this investment went to the mining (41% of total FDI), forestry (26% of total FDI), and software and computer services (11% of total FDI) industries. Together, Ontario, BC, Quebec, and Alberta attracted 96% of total inbound investment from the Asia Pacific in 2021.

The growth of Asia Pacific investment in the mining sector is related to a strengthened Australia-Canada economic relationship and growing demand for critical minerals from

Canada, such as lithium,⁴⁹ though Canada’s lithium reserves are minimal compared to the global supply.⁵⁰ As Figure 22 indicates, the investment relationship between Australia and Canada has been steadily growing, especially Australia’s investment in Canada. This upward trend in bilateral investment relations will likely continue as both countries continue to diversify their dependence on China’s economy, and Australia’s demand for critical minerals is projected to grow.⁵¹

FIGURE 22

Investment Flows Between Canada and Australia, 2017-2021



Source: APF Canada Investment Monitor, fDi Markets (accessed March 2022)

Asia Pacific investment in Canada’s forestry and paper sector expanded in 2021 with a C\$3.8B investment by Indonesia-based Sinar Mas Group. Despite the popularity of Canada’s natural resources sector among Asia Pacific investors,⁵² the Investment Monitor did not record any significant investment from Asia Pacific countries in this sector between 2003 and 2020. While a one-off deal by Sinar Mas Group in the Canadian forestry and paper industry cannot be considered a signal that investments in this sector will grow, the large sum and high-profile nature of the investment may encourage other Asia Pacific companies to expand their investments in Canada’s forestry sector.

Technology, which encompasses computer software, biotechnology, and media, is becoming an increasingly important industry for foreign investors in Canada. In 2021, technology became Canada’s third-largest sector. International Data Corporation Canada (IDC) predicts that the Canadian information and communication technology sector will continue to grow, and it is projected to reach C\$132.6B by 2025.⁵³ While IDC does not talk about Asia Pacific investment specifically, it predicts a consistent growth in Canada’s technology sector, which likely includes

investments from the Asia Pacific as several countries in this region have identified the tech sector as one of the top industries for future development.⁵⁴ In 2021, the majority of investment in this sector went to Mississauga, a global technology hub located in the province of Ontario.⁵⁵

OUTBOUND INVESTMENT TRENDS

Australia topped Canada's outbound investment flows, further solidifying the Canada-Australia relationship. Canada's investment in Australia has shifted toward the utilities and technology industry. The investment in utilities may be an outlier, but the growth in technology investment is in line with Australia's own 2022 predictions for this sector.⁵⁶ Canada's growing investment in technology is not limited to Australia. According to Investment Monitor data, Canada's outbound FDI in the technology industry in the Asia Pacific has grown significantly since 2019. Similarly, Canada's electricity industry has grown significantly in the past few years from C\$600M in 2019 to C\$3.1B in 2021. This trend will likely continue with Canada's growing appetite for innovation in clean energy.

Canadian SOEs were the leading investors in 2021, accounting for 68% of total outbound investment in the Asia Pacific region. This notable break in trends could be attributed to the acquisition of AusNet by a consortium of two Canadian SOEs and two other private pension plans. However, even when removing the possible outlier, the upward trend in SOE investment remains. In addition to this, the Canada Pension Plan Investment Board, Canada's largest SOE and the largest overall investor, has committed its 2025 investment strategy to increasing its Asia Pacific investment portfolio.⁵⁷

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