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*Trade Update*  
**2000**

First Annual Report on  
Canada's State of Trade  
**Second Edition**

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Canada

# Trade Update

2000



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Canada's State of Trade  
Second Edition

## ABOUT THIS DOCUMENT

*In* A PERIOD OF ONGOING ECONOMIC INTEGRATION both in North America and globally, trade and investment have a growing impact on the lives of all Canadians. As Canada's markets are increasingly found beyond our borders, and as Canadians continue to depend on goods and services produced abroad, whether for consumption or as inputs to domestic production processes, external economic developments are becoming more important.

Accordingly, Canadians — both within the public policy community — are becoming more aware of issues in the international economic domain. Along with this change has come increased demand for comprehensive information and analysis on Canada's trade and investment trends and performance. This document is intended to help fill this demand. It reviews and analyses the major developments in Canada's international trade and investment in 1999 in the context of Canada's overall external accounts — the Balance of Payments — and against the background of economic trends and performance, both domestically and in Canada's major trading partners.

This report was prepared by the Economic and Trade Analysis Division (EET) of the Department of Foreign Affairs and International Trade under the direction of John M. Curtis, Senior Economic Advisor and Co-ordinator. Ram Acharya wrote the original version of the report, with contributions from Shenjie Chen, Clea Coronel, Suzanne Desjardins and Samad Uddin. Dan Ciuriak co-ordinated the preparation of the report and edited the text. Hung-Hay Lau and Sam Lee provided revisions and data updates to the first edition of this document.



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*A Message from the  
Honourable Pierre Pettigrew,  
Minister for International Trade*

**W**HILE CANADIANS ARE GENERALLY MODEST ABOUT OUR ACHIEVEMENTS, we can congratulate ourselves in setting new benchmarks for achievement in exporting to the world and in attracting investment. Much of this success is illustrated statistically in this report, which highlights two realities about Canada's international performance that are particularly impressive.

First, Canada continues to record trade and investment numbers that are staggering. Every day of the week we do over \$2.2 billion worth of business — exports and imports of goods and services — with the world. Some \$37 billion in direct investment flowed into Canada in 1999, bringing the stock of foreign direct investment (FDI) in Canadian wealth-creating enterprises to \$240 billion. In many instances, investment flows are closely linked with trade flows, as illustrated by the global estimate that some one half of world trade moves within the channels of affiliated companies.

In total, exports of goods and services increased some 11 percent in 1999 to reach \$412 billion, or 43 percent of Canada's gross domestic product (GDP). The payback in a nation in which one job in three depends on exports was immediate. The 427 000 net new jobs created in 1999 were the highest total since 1979, and part of this expansion relates directly to our success in global markets.

Second, the statistics illustrate the dramatic transformation toward the so-called "new economy" that has been taking place within Canada's industrial sectors and export mix in recent years. Exports of telecommunications equipment, for example, increased 11 percent in 1999. Exports from the highly sophisticated automotive products sector increased by 24 percent in 1999, reflecting the competitiveness and active investment of this sector. Exports of services generating royalty and licence fees grew 31 percent in 1999. In each instance, Canadian contenders have taken on the global champions in their knowledge-intensive sector — and have prevailed.





Canadians in communities across this country have shared the rewards of succeeding in the new economic era of business beyond borders. Our high level of global connectedness leads to jobs for Canadians, to enhanced competitiveness of our companies, to greater choice for consumers, and to a better quality of life for the country.

While we have been doing well internationally, this is not a time for complacency by Canadian governments or industry. Much of our global success draws on a federal infrastructure that comprises hundreds of international trade and investment agreements, the support of 130 Canadian posts around the world, and the innovative trade financing of EDC (Export Development Corporation), among other federal assets. This is an infrastructure that requires continuous investment and modernization.

We must aim to have more Canadian companies selling more goods and services to more countries. While Canada's trade is substantially powered by some 50 large corporations, more than 70 percent of our exporters are small companies with less than \$1 million in sales. When they go abroad, we have to help sustain their efforts, in order that they succeed in joining the ranks of Canada's major corporations. We must also make greater efforts in emerging markets, and continue to expand in high-growth sectors such as those related to the digital economy.

In short, this is no time for complacency. As Minister for International Trade, I invite you to join in as Canadians seek to build on our successes with renewed determination to harness the benefits of globalization through trade.

And I am confident that, with continued intensive effort to focus on new markets and increase the share of Canadian exports in existing markets, next year's *State of Trade Report* will show that we are making even greater progress.



## THE PAST YEAR IN TRADE

## HIGHLIGHTS OF CANADA'S TRADE AND ECONOMIC PERFORMANCE

For Canada, 1999 marked the eighth consecutive year of economic growth in what is emerging as one of the longest and most stable expansions of the postwar era.

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**Box 1: 1999 Economic Highlights<sup>1</sup>**

- ❑ *Gross domestic product* at current prices, reached \$957.9 billion, or \$31 332 per capita.
- ❑ *Real growth* (adjusted for inflation) in GDP accelerated to 4.5 percent from 3.3 percent in 1998. This was the highest growth rate in the 1990s, apart from the 4.7 percent recorded in 1994 during the early phase of the recovery from the 1991 recession.
- ❑ *Consumer price inflation* remained moderate at 1.7 percent, with most of the acceleration from 1998's 0.9 percent rate accounted for by the increase in energy prices. Core inflation of 1.5 percent was comfortably below the mid-range of the Bank of Canada's 1 percent to 3 percent target band.
- ❑ *The unemployment rate* averaged 7.6 percent in 1999, the lowest in the 1990s. By December, the unemployment rate had fallen to 6.8 percent, the lowest level since April 1976.
- ❑ *Job growth* in 1999 hit 3 percent, the highest rate since 1988 when employment expanded by 3.2 percent. The 427 000 net new jobs created were the highest total since 1979, when a record 445 000 new jobs were created.
- ❑ *The sum of the inflation and unemployment rates* remained in single digits at 9.3 percent, marginally above the recent low of 9.2 percent in 1998 and well down from the 16 percent recorded in the recession year 1991.
- ❑ *The Canadian dollar* continued to rebound over the course of 1999 from the historic low of US\$0.638 recorded on August 27, 1998 at the height of the economic and financial crisis that roiled global markets that year. The dollar closed 1999 at US\$0.693. For the year as a whole, it averaged US\$0.673, virtually unchanged from its annual average in 1998.
- ❑ *Exports* were up strongly in 1999, with robust gains wide spread among most provinces in Canada.

*International trade played an important role in sustaining Canada's economic growth in 1999.*

- ❑ Exports of goods and services increased 11.3 percent to reach \$412.4 billion, equivalent to 43.1 percent of GDP.
- ❑ Imports of goods and services increased 7.4 percent to reach \$384.6 billion, equivalent to 40.2 percent of GDP.
- ❑ The current account deficit narrowed to \$3.4 billion or 0.4 percent of GDP (down from \$16.3 billion or 1.9 percent of GDP in 1998). The main factor underpinning this improvement was the increase in the merchandise trade surplus to \$33.8 billion from \$19.1 billion a year earlier.

<sup>1</sup> All monetary amounts are expressed in Canadian dollars, unless otherwise indicated.



*The direction of Canada's trade in 1999 was significantly affected by global economic trends.*

- ❑ Exports to the United States grew strongly as expansion in the U.S. continued unabated. The share of the U.S. in Canada's merchandise exports rose to 85.9 percent (from 83.6 percent in 1998).
- ❑ Exports to Japan declined despite a temporary boost to growth in that economy in the first half of the year from massive fiscal stimulus. The effects of the fiscal stimulus rapidly dissipated in the second half of the year, leaving growth in that economy flat for the year as a whole.
- ❑ Sales to the European Union picked up moderately, as growth in major Western European economies firmed.
- ❑ Exports to most other major markets were, for the most part, down on the year:
  - The strong rebound in East Asia in 1999 did not make itself felt in a general recovery in Canadian exports to the region. There were a few bright spots, however, as exports to South Korea (up 8.3 percent) and to the Philippines (up 13.9 percent) bounced back smartly.
  - Merchandise exports to most major Latin American destinations declined in 1999 as the region weathered recessionary conditions; higher exports to Canada's free trade partners in the region, Mexico (up 10.9 percent) and Chile (4.8 percent), partially offset these declines.

*The sectoral composition of exports experienced significant shifts in 1999.*

- ❑ The highlight of 1999 was the steep growth in automotive sector exports. This sector experienced one of its best export years ever, with international sales rising 24.2 percent, increasing this sector's share of total Canadian merchandise exports to 26.7 percent. With this performance, the automotive sector regained its historic position as Canada's leading major export sector, displacing machinery and equipment (M&E), which had nosed ahead in 1998. Trade in the energy sector also experienced a sharp rise, largely due to rising oil prices.
- ❑ The continued decline on an annual average basis in the price of metal products resulted in a drop in the value of industrial goods and materials trade, notwithstanding volume gains.
- ❑ With regard to trade in services, the strongest growth was recorded in commercial services, where expansion continues to be driven by key knowledge-based commercial services.

*Import growth driven by investment demand due to strong domestic economy.*

- ❑ Rapid expansion of M&E imports allowed the economy to maintain its capacity to meet the growing demand, and to continue the retooling needed to remain competitive in the "e-age."
- ❑ In regional terms, Canada's import growth in 1999 was broadly based, with robust growth in imports recorded from the U.S., as well as from Europe and Asia.
- ❑ Sectorally, import growth was paced by purchases of consumer and auto products. Commercial services and investment-related goods also performed well.





- The sharp rebound of international oil prices from their deep lows of 1998, which overall was beneficial for Canada as a net energy exporter, led to a steep rise in the oil import bill for provinces that are net importers of energy.

*Two-way direct investment flows continue at historically high levels, and Canada's net external indebtedness declines for first time in 60 years.*

- The flow of FDI into Canada reached a new record in 1999.
- Meanwhile, the flow of Canadian direct investment abroad (CDIA) eased from its record level reached in 1998.
- As a result, FDI inflows moved ahead of CDIA for the first time since 1992.
- The main factor driving direct investment in 1999 was mergers and acquisitions activity, principally in the finance and insurance, machinery, and transportation equipment sectors.
- Canada's net external indebtedness, which had been declining for a number of years as a share of GDP, declined in terms of absolute value for the first time in 60 years.

**Trends:**

- Trade performance in 1999 capped a decade of exceptional growth. Over the period 1990-1999, during which GDP growth averaged 2.3 percent in real (inflation-adjusted) terms, exports of goods and services averaged 8.1 percent growth in real terms, while imports averaged 7.0 percent growth.
- The sustained high rate of expansion of trade relative to GDP is indicative of structural changes in the economy. These changes are in response to the competitive pressures and new opportunities created on a regional basis by the Canada-U.S. Free Trade Agreement (FTA) and its successor the North American Free Trade Agreement (NAFTA); and multilaterally through the reduction of trade barriers pursuant to the agreements reached in the Uruguay Round of trade negotiations.

**Table 1: Trade as a % of GDP, 1989-1999**

|               | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---------------|------|------|------|------|------|------|------|------|------|------|------|
| Total exports | 25.6 | 25.7 | 25.0 | 27.0 | 30.1 | 34.0 | 37.3 | 38.4 | 39.1 | 41.2 | 43.1 |
| Goods         | 22.4 | 22.4 | 21.6 | 23.4 | 26.2 | 29.7 | 32.9 | 33.6 | 34.3 | 35.8 | 37.6 |
| Services      | 3.2  | 3.3  | 3.4  | 3.6  | 3.9  | 4.3  | 4.4  | 4.8  | 4.8  | 5.4  | 5.4  |
| Total imports | 25.6 | 25.7 | 25.7 | 27.4 | 30.2 | 32.9 | 34.3 | 34.4 | 37.5 | 39.8 | 40.2 |
| Goods         | 21.2 | 20.8 | 20.6 | 22.1 | 24.4 | 27.1 | 28.5 | 28.6 | 31.6 | 33.6 | 34.1 |
| Services      | 4.4  | 4.9  | 5.1  | 5.3  | 5.8  | 5.8  | 5.7  | 5.8  | 5.8  | 6.2  | 6.0  |

Source: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue no. 13-001-PPB, 1st Quarter 2000.

- The higher rate of growth of exports over imports during the 1990s reflected a combination of somewhat more rapid growth in the U.S. than in Canada, coupled with the effects of the decline in the bilateral Canada-U.S. exchange rate over the course of the decade.



*The economic relationship with the United States was the dominant factor in Canada's trade and investment performance.*

- Two-way trade in goods and services with the U.S. grew by 10.6 percent last year, with goods trade up 11.0 percent and services up 7.5 percent.
- For the decade as a whole, two-way trade grew at an average annual pace of 10.4 percent, raising the level of two-way trade in goods and services from \$235.2 billion a year in 1989 to over \$622.7 billion in 1999. This represented over \$1.7 billion of business per day.
- With this performance, Canada turned a small but persistent deficit on the bilateral current account over the period 1988 through 1993 into a surplus in the years since. This reflected both an expansion of the traditional bilateral surplus in merchandise trade, as well as a substantial reduction in the long-standing deficit in services trade.
- The Canadian current account surplus with the U.S. increased to an all-time high of \$32.4 billion in 1999, from \$11.5 billion in 1998.
- From a Canadian perspective, the trading relationship with the U.S. dominates the statistics: the U.S. accounts for over 4/5 of exports and 3/4 of imports.

**Table 2: Two-way Trade, Canada and the United States, 1990-1999**

|           | Value (millions of current dollars) |          |                  | Annual growth (%) |          |                  |
|-----------|-------------------------------------|----------|------------------|-------------------|----------|------------------|
|           | Goods                               | Services | Goods & Services | Goods             | Services | Goods & Services |
| 1990-1999 | 356 181                             | 48 703   | 404 895          | 10.5              | 8.5      | 10.4             |
| 1997      | 454 140                             | 57 923   | 512 063          | 12.8              | 8.0      | 12.3             |
| 1998      | 503 293                             | 63 248   | 566 541          | 10.8              | 9.2      | 10.6             |
| 1999      | 558 722                             | 67 982   | 626 704          | 11.0              | 7.5      | 10.6             |

Source: Statistics Canada, CANSIM, Matrix no. 2361: *Canadian Balance of International Payments — United States*.

**Table 3: Shares of U.S. Goods Imports From, and Exports To, Five Main Trading Partners**

|        | As % of total U.S. imports |      |      |      | As % of total U.S. exports |      |      |      |
|--------|----------------------------|------|------|------|----------------------------|------|------|------|
|        | 1994-1996                  | 1997 | 1998 | 1999 | 1994-1996                  | 1997 | 1998 | 1999 |
| Canada | 19.5                       | 19.2 | 19.9 | 22.8 | 21.8                       | 22.0 | 22.7 | 24.1 |
| EU     | 17.9                       | 18.1 | 19.3 | 19.1 | 20.9                       | 20.4 | 21.8 | 21.8 |
| Mexico | 8.4                        | 9.9  | 10.4 | 10.7 | 8.9                        | 10.4 | 11.5 | 12.5 |
| Japan  | 16.3                       | 14.0 | 14.0 | 15.1 | 10.7                       | 9.5  | 8.5  | 8.3  |
| China  | 6.2                        | 7.2  | 7.8  | 8.0  | 1.9                        | 1.9  | 2.1  | 1.9  |

Source: U.S. Census Bureau, *International Trade Statistics*. Note: Data are on a customs basis.

- However, our trading partners' import data suggest greater diversification in Canada's exports than our own export statistics suggest. One factor that may account for at least part of this discrepancy is the increased use of U.S. transportation facilities to ship merchandise to third countries. This may result in an overstatement of the share of Canada's exports going to the U.S. and an understatement of share going to other major trading partners. Ongoing work on data reconciliation with Canada's major trading partners will improve our knowledge of the distribution of Canadian exports.
- From a U.S. perspective, Canada does not loom quite so large, reflecting the different size of the two economies. Nonetheless, Canada carries an economic weight in the U.S. market well above its weight in the global market as a whole, as shown in Table 3, ranking with the 15-country EU both in terms of import and export shares.



## MERCHANDISE TRADE

Conditions were generally favourable for Canadian exporters in 1999: growth improved internationally, and international prices for key commodities (e.g. energy and some base metals) improved. In addition, the exchange rate remained favourable as the gradual appreciation of the Canadian dollar from its historic lows of 1998 still left it well below most measures of its purchasing power parity level. At the same time, the acceleration of real growth in Canada to 4.5 percent fed strong import demand. In 1999, the value of Canada's merchandise exports rose to \$360.6 billion, up 11.9 percent from \$322.3 billion in 1998. Meanwhile, Canada imported goods worth \$326.8 billion, up 7.7 percent from \$303.4 billion in 1998. This resulted in a merchandise trade surplus of \$33.8 billion or 3.6 percent of GDP, compared to \$19.1 billion or 2.1 percent of GDP in 1998.

### THE DIRECTION OF TRADE IN 1999

The share of Canada's exports in the U.S. has risen over the years. In the 1970s and 1980s, the rise in the U.S. share was reflected principally in a lower share of exports being shipped to Europe. In the 1990s, the rise in the U.S. share was reflected in a diminution of shares of all other regions.

*Table 4: Shares of Canada's Merchandise Exports (%), 1970-1999*

|                         | 1970-1979 | 1980-1989 | 1990-1999 | 1997 | 1998 | 1999 |
|-------------------------|-----------|-----------|-----------|------|------|------|
| U.S.                    | 68.6      | 73.7      | 79.8      | 80.5 | 83.6 | 85.9 |
| EU                      | 11.3      | 7.9       | 6.3       | 5.7  | 5.5  | 5.0  |
| Japan                   | 5.9       | 5.4       | 4.2       | 4.1  | 3.0  | 2.6  |
| ROW (rest of the world) | 14.2      | 13.0      | 9.7       | 9.8  | 7.9  | 6.5  |

Source: Statistics Canada, CANSIM. Matrix no. 3685: *Merchandise Exports on a Balance of Payments Basis by 64 Major Groups and by 6 Principal Trading Areas* based on the Standard Commodity Classification.

### Review of Export Performance by Major Partner Economies and Regions in 1999

#### *The United States*

Market conditions in the United States, which is experiencing its longest expansion in the postwar period, were extremely favourable for Canadian exporters in 1999. U.S. GDP grew 4.2 percent in real terms (the fourth consecutive year above 4 percent), but U.S. domestic demand grew even faster at 5.1 percent. Underpinning U.S. domestic demand growth was buoyant consumer spending and strong business investment activity, particularly in terms of the upgrading of technology.

- U.S. consumer expenditure increased 5.3 percent in 1999 as demand was bolstered by increases in employment and the wealth gains resulting from the record bull equity market. Spending on durable goods rose 11.5 percent in 1999 (following 11.3 percent in 1998); at the same time, spending on housing rose 7.4 percent in 1999, building on the 9.2 percent surge in 1998.
- Business investment rose 8 percent in 1999, led again by spending on high-technology equipment, extending by another year the long run of rapid growth in investment outlays. Spending on communications equipment rose 25 percent, boosted by the expansion of wireless communications, competition in telephone markets, and the continued spread of the Internet and related services.



- Purchases of computer equipment increased by nearly 40 percent and of software by 13 percent. On the other hand, spending on industrial machinery rose only moderately by 2 percent.

The strong U.S. domestic demand growth boosted exports to the U.S. by 14.9 percent in 1999. With exports to Canada's other major markets expanding more moderately, or declining as they did in some instances, the U.S. share of Canadian merchandise exports, based on Canada's export data, rose to 86 percent in 1999 from 83.6 percent a year earlier. Box 2 takes a closer look at the U.S. share of Canada's trade, based on other trading partners' import statistics.

### ***Box 2: Canada's Merchandise Exports: The Transshipment Issue***

Bilateral trade statistics are often distorted by transshipment of goods from the initial export destination to third countries. The extensive use of U.S.-based transportation facilities for Canadian trade with third countries makes the transshipment issue of broad relevance in the analysis of our bilateral trade data. For example, the very substantial discrepancies between Canadian and Mexican statistics on Canada-Mexico trade undoubtedly reflect the passage of goods through the United States. Other trading partners' import data also suggest greater diversification in Canada's exports than our own export statistics indicate.

The analysis of this issue is complicated by the fact that Canada does not independently compile data on exports to the United States. Pursuant to a 1990 bilateral agreement, Canada agreed to use U.S. import data on shipments from Canada as our source of information on exports to the United States; at the same time, the U.S. agreed to use Statistics Canada data on imports from the U.S. as its export data.

The panel below draws on the International Monetary Fund's, *The Direction of Trade Statistics* to give a sense of the possible order of magnitude of the discrepancy. As can be seen, there has been a growing discrepancy between Canada's recorded exports to the rest of the world (i.e. excluding the U.S.) and the reported imports of the rest of the world from Canada. While it is emphasized that no specific meaning can be attached to the levels of the gaps or ratios (which include the effects of different valuation — imports include the value of insurance and freight, whereas export data do not), the changes over the course of the 1990s suggest that either (a) the growth in Canada's exports has been even higher than our export data would suggest, or (b) some portion of the export growth in the 1990s reported as going to the U.S. has actually continued on to third countries. A rough estimate of this latter figure would be up to about US\$11 billion or 5 percent of Canada's exports, as suggested by the change between 1991 and 1998 in the gap between ROW imports from Canada vs. Canada's exports to the ROW.



### *Impact of Transshipment on Canada's Merchandise Exports, 1991-1998*

|   | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  |
|---|-------|-------|-------|-------|-------|-------|-------|-------|
| World Imports from Canada (c.i.f., US\$)  | 129.5 | 138.2 | 146.7 | 169.9 | 197.2 | 208.1 | 220.8 | 222.9 |
| Canada Exports to the World (fob, US\$)   | 126.2 | 133.4 | 140.7 | 161.3 | 190.2 | 200.1 | 213.0 | 211.4 |
| US Imports from Canada (c.i.f., US\$)     | 93.7  | 101.3 | 113.6 | 131.9 | 148.3 | 159.7 | 171.4 | 178.0 |
| Canada Exports to the U.S. (fob, US\$)    | 95.7  | 103.9 | 114.4 | 133.1 | 152.9 | 164.8 | 177.3 | 182.8 |
| ROW Imports from Canada (c.i.f., US\$)    | 35.8  | 36.9  | 33.1  | 38.0  | 48.9  | 48.4  | 49.4  | 44.9  |
| Canada Exports to the ROW (fob US\$)      | 30.5  | 29.5  | 26.3  | 28.2  | 37.3  | 35.3  | 35.7  | 28.6  |
| Gaps                                      |       |       |       |       |       |       |       |       |
| World Imports less Canada's World Exports | 3.3   | 4.8   | 6.0   | 8.6   | 7.0   | 8.0   | 7.8   | 11.5  |
| U.S. Imports less Canada's U.S. Exports   | -2.0  | -2.6  | -0.8  | -1.2  | -4.6  | -5.1  | -5.9  | -4.8  |
| ROW Imports less Canada's ROW Exports     | 5.3   | 7.4   | 6.8   | 9.8   | 11.6  | 13.1  | 13.7  | 16.3  |
| Ratios                                    |       |       |       |       |       |       |       |       |
| World Imports to Canada's World Exports   | 1.026 | 1.036 | 1.043 | 1.053 | 1.037 | 1.040 | 1.037 | 1.054 |
| U.S. Imports to Canada's U.S. Exports     | 0.979 | 0.975 | 0.993 | 0.991 | 0.970 | 0.969 | 0.967 | 0.974 |
| ROW Imports to Canada's ROW Exports       | 1.174 | 1.251 | 1.259 | 1.348 | 1.311 | 1.371 | 1.384 | 1.570 |

Source: International Monetary Fund, *The Direction of Trade Statistics*, various issues.

### *The European Union*

Among the hopeful signs that emerged in 1999 for more balanced growth globally was revived growth in Western Europe. In the 11 Euro members, real GDP growth picked up substantially over the course of the year, averaging 2.3 percent for the year as a whole. Growth in the U.K. also picked up over the course of the year. However, with the depreciation of the Euro by 15 percent relative to the U.S. dollar over the year, and unemployment remaining stubbornly high in the Euro members, import demand remained moderate. The value of Canada's exports to the EU expanded by 2.5 percent in 1999.

Given regional developments in both Europe and North America in the past decade or so, which have favoured intensified intra-regional trade (including the corporate restructuring undertaken before 1999 in preparation for the launch of the Euro), it is interesting to consider the evolution of Canada's market share in Europe. Table 5 provides an overview of the share of imports of the 15-member European Union obtained from each other (intra-EU) and from the rest of the world.

As can be seen, Canada's share in total EU imports from non-member countries did fall to 1.8 percent in the post-1992 period from 2.4 percent in 1989-1990. The U.S. experienced a decline in market share of a similar order of magnitude in the early 1990s. At the same time, the share of intra-EU imports did not increase as might have been expected from the period preceding the single market exercise (which culminated in 1992). Accordingly, the erosion of market share in Europe experienced by both Canada and the U.S. in the first instance was due to third parties gaining share, rather than to intensified intra-European trade.



It is also interesting to note that the U.S. market share has since recovered in part. These patterns would suggest that factors such as the commodity structure of trade played a greater role than regional tendencies in shaping the observed trends.

**Table 5: Intra-EU Trade and Imports from Selected Trading Partners, 1989-1998**

|  | 1989-1990 | 1993-1994 | 1997-1998 |
|--|-----------|-----------|-----------|
| Share of EU-15 Imports from major trading partners (%) |           |           |           |
| Intra-EU   | 62.9      | 59.8      | 61.2      |
| EU - ROW   | 37.1      | 40.2      | 38.8      |
| Percentage breakdown of EU-15 imports from ROW         |           |           |           |
| Total  | 100       | 100       | 100       |
| Canada   | 2.4       | 1.8       | 1.8       |
| U.S.   | 20.2      | 19.4      | 20.5      |
| Japan  | 12.1      | 11.3      | 9.2       |
| China  | 2.2       | 4.3       | 5.0       |
| Switzerland  | 8.1       | 7.7       | 6.6       |
| Other countries  | 55.0      | 55.5      | 57.0      |

Source: International Monetary Fund, *The Direction of Trade Statistics*, various issues.

### *East Asian Economies*

Exports to Canada's major markets in East Asia continued to feel the residual effects of the economic and financial crisis that hit the region in 1997-1998. Over the course of 1999, all the crisis-affected economies returned to positive growth rates and economic conditions progressively improved, although the timing and vigour of the recovery varied from economy to economy. For Canada, the crisis resulted in a sharp drop in the value of exports to East Asian economies in 1998 and continued low levels of exports (including further declines in some markets) in 1999. Table 6 summarizes the consequences of these developments for Canada's exports.

Overall, despite some restoration of growth in exports to some markets, Canada's level of exports in the region in 1999 was lower than that of 1998. Exports to Japan, which had fallen from \$11.17 billion in 1997 to \$8.65 billion in 1998, fell further to \$8.39 billion in 1999. Similarly, Canada's exports to the nine other major East Asian economies dropped to \$8.94 billion in 1998 and then to \$8.82 billion in 1999, from \$11.76 billion in 1997. As a result, the share of these key East Asian economies in Canada's exports fell substantially, as shown in Table 7.

The absence of a significant positive bounce in exports in 1999, despite the fact that economic recovery in East Asia turned out to be far more rapid than anticipated, indicates the influence of other factors (e.g. low levels of exchange rates making imports from industrialized countries comparatively expensive, still high unemployment rates, and continuing low levels of consumer confidence).



In Japan, GDP increased in the first two quarters of 1999 in real terms, led by fiscal stimulus, which was directed predominantly to domestic infrastructure projects. However, as the direct effects of the fiscal stimulus waned, domestic demand was insufficient to sustain growth, and the economy slumped in the second half of the year. For the year as a whole, Japan managed only 0.1 percent growth on an annual average basis. Accordingly, demand conditions in Japan were not conducive to increasing exports to that market. As a result, Canada's exports to Japan fell by 3.4 percent.

**Table 6: Canada's Merchandise Exports to East Asian Economies (\$ billions), 1989-1999**

| Economies                       | 1989-1992    | 1993-1996    | 1997         | 1998         | 1999         |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Japan                           | 7.93         | 10.38        | 11.17        | 8.65         | 8.39         |
| South Korea                     | 1.63         | 2.38         | 3.03         | 1.82         | 1.98         |
| People's Republic of China      | 1.78         | 2.62         | 2.41         | 2.50         | 2.66         |
| Hong Kong                       | 0.85         | 1.25         | 1.75         | 1.43         | 1.10         |
| Taiwan                          | 0.95         | 1.35         | 1.62         | 1.18         | 1.14         |
| Indonesia                       | 0.35         | 0.64         | 0.80         | 0.55         | 0.55         |
| Malaysia                        | 0.25         | 0.41         | 0.70         | 0.48         | 0.42         |
| Philippines                     | 0.21         | 0.25         | 0.43         | 0.26         | 0.30         |
| Singapore                       | 0.35         | 0.45         | 0.55         | 0.42         | 0.37         |
| Thailand                        | 0.39         | 0.48         | 0.47         | 0.30         | 0.30         |
| Nine Major East Asian economies | 6.76         | 9.83         | 11.76        | 8.94         | 8.82         |
| <b>Total East Asia</b>          | <b>14.70</b> | <b>20.21</b> | <b>22.92</b> | <b>17.59</b> | <b>17.21</b> |

Source: Statistics Canada, *Canadian International Merchandise Trade 1999*. Catalogue no. 65-001-XPB, December 1999.

**Table 7: East Asian Economies' Share of Canada's Merchandise Exports (%), 1989-1999**

| Economies                  | Average<br>1989-1992 | Average<br>1993-1996 | 1997        | 1998        | 1999        |
|----------------------------|----------------------|----------------------|-------------|-------------|-------------|
| Japan                      | 5.32                 | 4.36                 | 3.75        | 2.72        | 2.36        |
| South Korea                | 1.10                 | 0.99                 | 1.02        | 0.57        | 0.56        |
| People's Republic of China | 1.18                 | 1.08                 | 0.81        | 0.78        | 0.75        |
| Hong Kong                  | 0.58                 | 0.52                 | 0.59        | 0.45        | 0.31        |
| Taiwan                     | 0.64                 | 0.56                 | 0.54        | 0.37        | 0.32        |
| Indonesia                  | 0.24                 | 0.26                 | 0.27        | 0.17        | 0.15        |
| Malaysia                   | 0.17                 | 0.17                 | 0.23        | 0.15        | 0.12        |
| Philippines                | 0.14                 | 0.11                 | 0.14        | 0.08        | 0.08        |
| Singapore                  | 0.23                 | 0.19                 | 0.18        | 0.13        | 0.10        |
| Thailand                   | 0.26                 | 0.20                 | 0.16        | 0.09        | 0.08        |
| Nine East Asian economies  | 4.54                 | 4.13                 | 3.75        | 2.72        | 2.36        |
| <b>Total East Asia</b>     | <b>9.89</b>          | <b>8.46</b>          | <b>7.69</b> | <b>5.48</b> | <b>4.85</b> |

Source: Statistics Canada, *Canadian International Merchandise Trade 1999*. Catalogue no. 65-001-XPB, December 1999.





South Korea's recovery was far more robust, with GDP estimated to have increased by 9 percent in real terms in 1999, more than making up the 5 percent decline in 1998. However, the domestic unemployment rate remained well above pre-recession levels, and the exchange rate remained comparatively low. In this context, Canada's exports to South Korea rebounded in 1999, growing 8.3 percent; this only partially made up for the 39.9 percent decline in 1998.

The other epicentre of the Asian Crisis was the group of previously rapidly growing Southeast Asian developing economies. Economic activity in these economies improved from 1998; however, only in the case of the Philippines was there a return to positive growth of Canadian exports. In the other cases, export growth did become significantly less negative:

- Singapore (-11.9 percent in 1999 after -23.6 percent in 1998);
- The Philippines (+11.5 percent in 1999 after -39.5 percent in 1998);
- Malaysia (-14.5 percent in 1999 after -31.4 percent in 1998); and
- Indonesia (-1.8 percent in 1999 after -31.3 percent in 1998).

As in Korea, factors contributing to lower import demand included domestic unemployment remaining substantially above pre-recession levels and the currencies remaining low.

Exports to China held up during this period, while exports to Hong Kong and Taiwan continued to fall. Conditions in these three economies varied considerably. In China, growth slowed in 1999 (to 7.1 percent from 7.8 percent in 1998) notwithstanding the turnaround in much of the region. In part, this reflected the fact that China's economy, having been largely insulated from the direct impacts of the regional crisis, was not in a position to bounce back in 1999. It was also due to moderate growth in consumer spending, as savings rose in response to comparatively high real interest rates. Further, consumer confidence was dampened by uncertainties arising from the major ongoing socio-economic reforms. Other factors relevant to restrained import demand included good harvests, which reduced demand for grain imports, and the fact that the fiscal stimulus implemented to support growth came in the form of support for production by state-owned enterprises and infrastructure development in the interior regions. In all, conditions did not favour rapid export growth to the Chinese market.

Notwithstanding the fact that Hong Kong was not destabilized during the financial turbulence, and despite its close economic links to the still-growing Chinese economy, it experienced one of the deepest declines in output in the region in 1998, steep declines in equity and property market values, and a deep deflation that bottomed out in the -6 percent range. Hong Kong was also among the last of the major East Asian economies to return to positive growth during 1999. These developments shed some light on the steep decline in Canada's exports to Hong Kong in 1998 and the continued slide in 1999.

General economic conditions, however, are less capable of explaining the decline in Canada's exports to Taiwan, which, unlike Hong Kong, maintained growth in 1998 and saw growth accelerate in 1999. Given regional developments over the past decade or so in both in Asia and other parts of the world favouring intensified intra-regional trade, it is of interest to consider the evolution of Canada's market share in Asia. Table 8 provides an overview of the share of imports of Asian economies obtained from each other (intra-Asia) and from the rest of the world.







*Table 8: Intra-Asia Trade and Imports from Selected Trading Partners, 1989-1997*

|   | 1989  | 1997  |
|---|-------|-------|
| Share of Asia's imports from major trading partners (%) |       |       |
| Intra-Asia  | 48.7  | 55.8  |
| ROW   | 51.3  | 44.2  |
| Percentage breakdown of Asia's imports from ROW         |       |       |
| Total   | 100.0 | 100.0 |
| Canada  | 2.3   | 1.3   |
| U.S.  | 18.5  | 15.5  |
| Australia   | 3.3   | 2.5   |
| France  | 2.6   | 2.5   |
| Germany   | 5.4   | 4.9   |
| U.K.  | 3.6   | 3.5   |

Source: International Monetary Fund, *The Direction of Trade Statistics*, various issues.

As can be seen, Canada's share in total Asian imports fell to 1.3 percent in 1997 from 2.3 percent in 1989. A number of other major industrial countries experienced similar declines in market share in the 1990s, with the notable exception of the U.K. and France, which managed to largely preserve their market positions. At the same time, the share of intra-Asia imports increased from 48.7 percent in 1989 to 55.8 percent. This suggests that the erosion of market share in Asia that Canada and other industrialized countries experienced was due in large measure to intensified intra-Asian trade. At the same time, the relatively strong performance of some industrialized countries outside the region points to the influence of other factors.



### Box 3: The People's Republic of China

In late 1999, Canada signed a bilateral agreement with China, another step for that country toward accession to the World Trade Organization (WTO). China will join the WTO after signing similar agreements with other WTO members, as well as the overall entry protocol. Its membership in the Organization is expected to enhance trade opportunities by increasing trade and investment liberalization. As this historic moment approaches, it is useful to examine Canada's bilateral trade with China in recent years.

Canada typically records a deficit in merchandise trade with the People's Republic of China. By 1999, the deficit stood at \$6.3 billion, up from \$0.6 billion during the period from 1989 to 1992. In 1997 Canada's exports to China fell sharply, by 20.1%, as a result of the Asian financial and economic turmoil. In contrast, imports jumped by 29.1 percent in that year, and by an average of close to 20 percent per year in 1998 and 1999. These figures reflect the strength of Canada's domestic economic performance in recent years.

In 1999, Canada's exports to China represented 0.7 percent of our total exports, down from 1.2 percent during 1989–92; partly accounting for the decline was the diversion of Canada's exports to the booming economy of the United States. In contrast, Canada provided a rapidly growing market for imports from China. In addition, imports from China rose sharply in importance in relation to Canada's total imports from abroad. In 1999, imports from China rose to 2.8 percent of the value of overall imports, more than double the 1.2 percent share registered over 1989–92. Canadian exports to China have come from a wide range of sectors, dominated by wood pulp, agricultural products, machinery and equipment, aircraft, vessel, vehicles, and chemical products such as fertilizers. Wood pulp exports grew remarkably in recent years: from 14.4 percent of total exports to China in 1997, the market share rose to 22.8 percent in 1999. The market share of aircraft, vessels and vehicles also jumped sharply over the past two years, rising from 4.7 percent in 1997 to 7.1 percent in 1999; accounting for the increase were aircraft sales by Bombardier. On the negative side, weak grain prices brought a decline in the market share of agricultural exports to China since 1997.

Table C1: Canada's Merchandise Trade with China, 1989–1999

|                          | 1989–92 | 1993–96 | 1997  | 1998  | 1999  |
|--------------------------|---------|---------|-------|-------|-------|
| Exports (\$ billions)    | 1.78    | 2.62    | 2.41  | 2.50  | 2.66  |
| (as % of Canada's total) | 1.2     | 1.1     | 0.8   | 0.8   | 0.7   |
| Imports (\$ billions)    | 1.72    | 3.86    | 6.34  | 7.66  | 8.92  |
| (as % of Canada's total) | 1.2     | 1.9     | 2.3   | 2.6   | 2.8   |
| Balance (\$ billions)    | -0.57   | -0.94   | -3.93 | -5.16 | -6.26 |
| Growth in percentage     |         |         |       |       |       |
| Exports (%)              | 18.6    | 15.7    | -20.1 | 3.7   | 6.3   |
| Imports (%)              | 20.0    | 8.6     | 29.1  | 20.7  | 16.5  |

Source: Statistics Canada, *Canadian International Merchandise Trade 1999*, Catalogue No. 65-001-XPB, December 1999.

On the import side, the leading products are manufactured goods, such as machinery, textiles and footwear, and plastics and rubber. In recent years, the share of machinery and equipment has risen dramatically, from 20.3 percent of total imports in 1994 to 26.5 percent in 1999. Also on the rise have been imports of miscellaneous manufactured goods, such as furniture and household furnishings; their import share went from 18.3 percent in 1994 to 20.4 percent in 1999. In contrast, imports of textiles and textile products fell steadily, from 16.6 percent of total imports in 1994 to 13.3 percent by 1999. Similarly, imports of footwear and headgear trended downward, from 11.0 percent of total imports in 1994 to 8.9 percent by 1999. Over the second half of the 1990s, the import shares of a number of agricultural products declined somewhat. On the whole, there was a marked shift in the type of imports, moving from low-skill products to China's more high-skill manufactured goods. This shift suggests that trade liberalization has helped promote industrialization in China.

*Table C2: Canada's Merchandise Exports to China, 1994–1999*

(Value in millions of current dollars)

| <b>Classification</b>                               | <b>1994</b>     | <b>1995</b>     | <b>1996</b>     | <b>1997</b>     | <b>1998</b>     | <b>1999</b>     |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Live animals; animal products                       | 35.33           | 67.87           | 58.72           | 78.48           | 89.34           | 112.19          |
| Vegetable products                                  | 668.91          | 1,292.80        | 1,116.13        | 489.75          | 802.60          | 545.29          |
| Animal or vegetable fats and oil                    | 16.87           | 27.76           | 57.94           | 86.14           | 36.28           | 64.63           |
| Prepared foodstuffs and beverages                   | 2.21            | 2.63            | 2.85            | 5.72            | 3.32            | 5.73            |
| Mineral products                                    | 13.41           | 94.86           | 139.62          | 113.39          | 80.25           | 101.51          |
| Chemical products                                   | 271.94          | 391.42          | 253.20          | 333.88          | 307.51          | 388.52          |
| Plastics and rubber                                 | 31.95           | 72.35           | 114.55          | 82.13           | 80.71           | 97.04           |
| Raw hides & skins, leather                          | 8.00            | 17.85           | 9.18            | 24.40           | 17.75           | 28.34           |
| Wood and wood products                              | 19.32           | 20.92           | 21.59           | 18.34           | 9.82            | 10.14           |
| Pulp of wood and paper                              | 234.55          | 349.11          | 455.43          | 347.69          | 371.92          | 605.57          |
| Textiles  | 37.44           | 51.96           | 40.43           | 110.04          | 81.29           | 73.16           |
| Footwear & headgear                                 | 0.25            | 0.23            | 0.06            | 0.22            | 0.16            | 0.17            |
| Articles of stone, plaster and cement               | 1.05            | 4.56            | 4.38            | 9.54            | 3.63            | 3.14            |
| Precious stones, metals and jewellery               | 0.40            | 0.30            | 0.95            | 6.37            | 7.96            | 0.28            |
| Base metals and articles of base metals             | 53.11           | 154.98          | 76.27           | 95.21           | 91.78           | 71.99           |
| Machinery and mechanical appliances                 | 651.61          | 597.14          | 496.87          | 437.03          | 288.49          | 311.04          |
| Vehicles, aircraft, vessels and transport equipment | 227.47          | 283.89          | 139.68          | 113.98          | 176.44          | 189.83          |
| Optical & medical instruments, musical accessories  | 12.88           | 18.33           | 12.47           | 17.89           | 22.95           | 24.51           |
| Arms and ammunition                                 | 0.04            | 0.04            | 0.01            | 0.00            | 0.16            | 0.16            |
| Miscellaneous manufactured articles                 | 9.36            | 13.60           | 9.28            | 10.03           | 9.13            | 7.49            |
| Works of art, collectors' pieces and antiques       | 7.24            | 2.18            | 5.16            | 27.25           | 16.31           | 15.61           |
| <b>Total</b>  | <b>2,303.34</b> | <b>3,464.77</b> | <b>3,014.78</b> | <b>2,407.49</b> | <b>2,497.79</b> | <b>2,656.32</b> |

Source: *Canadian Trade Analyzer*.



**Table C3: Canada's Merchandise Imports from China, 1994–1999**

(Value in millions of current dollars)

| <b>Classification</b>                               | <b>1994</b>     | <b>1995</b>     | <b>1996</b>     | <b>1997</b>     | <b>1998</b>     | <b>1999</b>     |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Live animals; animal products                       | 43.76           | 66.54           | 78.44           | 71.08           | 82.66           | 89.01           |
| Vegetable products                                  | 99.10           | 74.97           | 86.07           | 83.70           | 96.79           | 96.28           |
| Animal or vegetable fats and oil                    | 1.83            | 1.20            | 5.31            | 3.12            | 6.03            | 3.98            |
| Prepared foodstuffs and beverages                   | 59.84           | 60.10           | 59.07           | 64.20           | 73.99           | 82.37           |
| Mineral products                                    | 19.59           | 37.53           | 40.53           | 40.58           | 45.44           | 51.66           |
| Chemical products                                   | 97.50           | 153.82          | 144.55          | 167.67          | 200.50          | 210.54          |
| Plastics and rubber                                 | 163.59          | 201.02          | 203.13          | 259.55          | 288.24          | 342.27          |
| Raw hides & skins, leather                          | 302.37          | 327.11          | 318.63          | 390.94          | 446.52          | 455.20          |
| Wood and wood products                              | 36.17           | 39.84           | 37.17           | 52.82           | 69.92           | 77.39           |
| Pulp of wood and paper                              | 35.86           | 45.28           | 49.00           | 57.48           | 77.81           | 99.38           |
| Textiles  | 639.81          | 747.62          | 708.03          | 928.75          | 1 066.54        | 1 183.79        |
| Footwear and headgear                               | 424.85          | 520.68          | 496.57          | 662.23          | 710.08          | 793.28          |
| Articles of stone, plaster and cement               | 76.17           | 88.29           | 100.30          | 120.45          | 168.32          | 184.27          |
| Precious stones, metals and jewellery               | 16.12           | 16.68           | 16.8            | 24.02           | 34.80           | 33.87           |
| Base metals and articles of base metals             | 202.38          | 262.85          | 281.88          | 379.19          | 465.62          | 513.36          |
| Machinery and mechanical appliances                 | 783.84          | 968.31          | 1 142.57        | 1 496.07        | 1 878.40        | 2 366.58        |
| Vehicles, aircraft, vessels and transport equipment | 44.76           | 53.22           | 60.35           | 71.86           | 126.77          | 159.81          |
| Optical & medical instruments, musical accessories  | 84.07           | 116.68          | 154.01          | 235.44          | 295.00          | 336.90          |
| Arms and ammunition                                 | 1.44            | 1.67            | 0.38            | 0.50            | 0.76            | 1.35            |
| Miscellaneous manufactured articles                 | 705.10          | 837.07          | 923.34          | 1 212.63        | 1 501.65        | 1 817.81        |
| Works of art, collectors' pieces and antiques       | 17.98           | 18.67           | 24.93           | 22.11           | 19.49           | 18.18           |
| <b>Total</b>  | <b>3 856.12</b> | <b>4 639.14</b> | <b>4 914.25</b> | <b>6 344.39</b> | <b>7 655.34</b> | <b>8 917.29</b> |

Source: *Canadian Trade Analyzer*.



## Latin America

The spread of the international economic and financial crisis to Latin America in the third quarter of 1998 resulted in economic contraction in the region, the deepest point of which was in the first half of 1999. Except in the case of Mexico, all major economies in Central/South America remained weak in 1999, although conditions improved as the year progressed. In particular, the downturn in Brazil proved to be less severe than feared, and, as confidence improved, short-term interest rates fell substantially from their crisis-related peak levels of early in the year. Nonetheless, Canada's merchandise exports to Central and South America declined by 17.2 percent in 1999, with the most significant declines being to Brazil (-36.3 percent), Colombia (-46.1 percent) and Argentina (-38.6 percent).

As in East Asia, there were some bright spots for Canada in Latin America: exports to free trade partners Mexico and Chile rose by 11.8 percent and 5.3 percent respectively — in Chile's case, despite a decline in output in that economy. Overall, this region absorbed 1.1 percent of Canada's merchandise exports in 1999, a fall from 1.5 percent in 1998.<sup>2</sup>

**Table 9: Canada's Merchandise Exports to Key Latin American Economies, 1989-1999**

|   | 1989-1992    | 1993-1996    | 1997         | 1998         | 1999         |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Exports (\$ millions)</b>                            |              |              |              |              |              |
| Mexico  | 673          | 1 082        | 1 277        | 1 467        | 1 632        |
| Argentina   | 67           | 198          | 409          | 342          | 211          |
| Brazil  | 575          | 1 123        | 1 693        | 1 382        | 1 038        |
| Chile   | 155          | 333          | 392          | 339          | 360          |
| Colombia  | 204          | 401          | 473          | 471          | 255          |
| Venezuela   | 356          | 656          | 954          | 704          | 524          |
| <b>Total</b>  | <b>2 029</b> | <b>3 792</b> | <b>5 198</b> | <b>4 705</b> | <b>4 020</b> |
| <b>Share in Canada's total exports to the world (%)</b> |              |              |              |              |              |
| Mexico  | 0.45         | 0.46         | 0.43         | 0.46         | 0.46         |
| Argentina   | 0.04         | 0.08         | 0.14         | 0.11         | 0.06         |
| Brazil  | 0.39         | 0.47         | 0.57         | 0.43         | 0.29         |
| Chile   | 0.10         | 0.14         | 0.13         | 0.11         | 0.10         |
| Colombia  | 0.14         | 0.17         | 0.16         | 0.15         | 0.07         |
| Venezuela   | 0.24         | 0.28         | 0.32         | 0.22         | 0.15         |
| <b>Total</b>  | <b>1.36</b>  | <b>1.59</b>  | <b>1.74</b>  | <b>1.48</b>  | <b>1.13</b>  |

Source: Statistics Canada, *Exports by Country*, Catalogue no. 65-003-XPB.

<sup>2</sup> The same caveats discussed in the case of the U.S. share of Canadian exports (see Box 2) apply in this case as well.



## Sources of Canadian Imports

Growth in Canada's imports was broadly distributed across trading partners in 1999. Imports from the U.S. increased by 6.7 percent, from Japan by 9.7 percent, and from the EU by 12.1 percent. Imports also rose rapidly from Asia (+9.7 percent), and from Latin America (+14.2 percent), two regions whose products gained in competitiveness from generally weaker exchange rates. As a result, the U.S. share of Canada's total imports decreased to 76.3 percent from 77 percent in 1998. Table 10 provides an historical perspective on the evolution of the structure of imports by origin. As can be seen, Canada's import markets are more diversified than its export markets; in the 1990s about one quarter of Canada's imports came from countries other than the U.S. However, the shares of the EU and Japan have fallen in the 1990s, partly to the benefit of the U.S. and partly to other countries as well.

*Table 10: Canada's Merchandise Imports, 1950-1999*

|                          | 1950-1959 | 1960-1969 | 1970-1979 | 1980-1989 | 1990-1999 | 1997 | 1998 | 1999 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|------|------|------|
| <b>Share (%)</b>         |           |           |           |           |           |      |      |      |
| U.S.                     | 71.6      | 70.8      | 70.1      | 70.4      | 74.6      | 76.1 | 77.0 | 76.3 |
| ROW                      | 28.4      | 29.2      | 29.9      | 29.6      | 25.4      | 23.9 | 23.0 | 23.7 |
| • EU                     | n.a.      | n a       | 9.5       | 10.0      | 8.8       | 8.7  | 8.4  | 8.7  |
| • Japan                  | n.a.      | n a       | 4.2       | 5.8       | 4.0       | 3.1  | 3.2  | 3.2  |
| <b>Annual Growth (%)</b> |           |           |           |           |           |      |      |      |
| U.S.                     |           | 10.4      | 16.1      | 7.5       | 9.8       | 17.3 | 10.5 | 6.7  |
| ROW                      |           | 8.1       | 15.4      | 7.4       | 6.0       | 14.9 | 5.3  | 11.1 |
| • EU                     |           | n. a.     | n. a.     | 11.5      | 2.4       | 17.8 | 5.0  | 12.1 |
| • Japan                  |           | n. a.     | n. a.     | 6.6       | 10.3      | 20.5 | 10.8 | 9.7  |

Source: Statistics Canada, CANSIM, Matrix no. 3651: *Merchandise Imports on a Balance of Payments Basis by 63 Major Groups and by 6 Principal Trading Areas Based on the Standard Commodity Classification*. n.a. = not available.

## Merchandise Trade: Sectoral Developments

The main developments in the sectoral composition of Canada's exports in 1999 included:

- Apart from industrial goods and materials, the value of exports expanded in all of the major sectors.
- The surge in automotive exports restored this sector's traditional position as Canada's leading export sector, after having been displaced in 1998 by M&E.
- The sharp rise in energy prices in the latter part of the year resulted in a sharp increase in the value of energy exports.



### *Agriculture and fishing, energy and forestry products:*

- ❑ In 1999, exports of agriculture, fishing, energy and forestry products combined rose 12.6 percent to \$94.8 billion. This represented 26.3 percent of total goods exports, down from 31.8 percent in 1989.
- ❑ Imports in these sectors rose 9.1 percent to \$31 billion.
- ❑ The combined surplus in these sectors reached \$63.8 billion in 1999, up from \$55.8 billion in 1998.

### *Industrial goods and materials:*

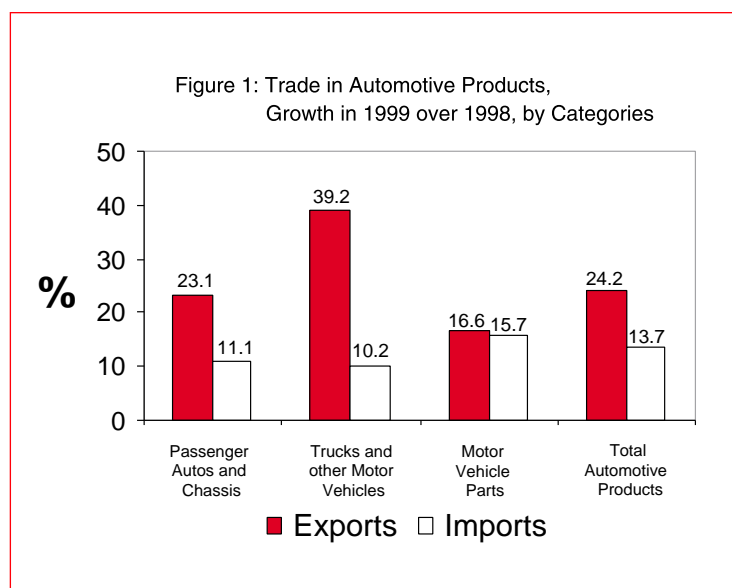
- ❑ Exports of industrial goods (which includes intermediate inputs such as metals, chemicals, plastics and fertilizers) decreased 0.9 percent, despite volume gains, in part due to weak metals prices.
- ❑ Imports of these products rose 3.1 percent to reach \$62.1 billion.

### *Consumer goods:*

- ❑ Growth in exports of consumer products in 1999 amounted to 9.4 percent. This performance capped a decade of exceptional growth in exports of consumer goods, albeit from a relatively small base. Over this 10-year period, exports of consumer goods rose a cumulative 415 percent, leading all sectors. Most of this growth was accounted for by sales into the strong U.S. market.
- ❑ Buoyant consumption in Canada translated into strong demand for imports of consumer goods.
- ❑ Canada typically runs a deficit in consumer goods trade; in 1999, the deficit widened further.

### *Automotive products:*

- ❑ Automotive exports rose 24.2 percent (almost double the 1998 growth rate of 12.2 percent) to \$96.1 billion in 1999. In part, the strong performance reflected new models coming on stream in Canada for which demand was particularly strong. Partly, however, it also reflected the effect of the General Motors strike that depressed export levels in 1998. Of particular note was the 20.6 percent expansion of Canada's sales to the rest of the world (i.e. excluding the United States).
- ❑ Imports rose 13.7 percent to \$75.9 billion as domestic sales of new vehicles rose to 1.54 million units in 1999, up 7.9 percent compared with 1998. Sales for 1999 fell just short of the all-time record of 1.56 million vehicles sold in 1988. Both passenger cars and trucks contributed to the 1999 increase, with passenger car sales rising by 8.9 percent compared with 1998, while the increase for trucks was 6.9 percent.



### *Machinery and equipment:*

- In 1999, M&E exports grew 7.8 percent, reaching a level of \$85 billion.
- Within this category, exports of "other machinery," which includes telecommunications equipment and office machines, rose by 11 percent. However, the decline in exports of agricultural machinery, acted as a drag on this sector. As a result, the sector's share in total exports fell to 23.6 percent in 1999, a slight change from the 1998 level of 24.4 percent.
- M&E imports increased by 6.8 percent to \$108.2 billion. Imports of industrial and agricultural machinery fell in 1999, whereas the imports of office machines and other machinery rose.

### *Structural Developments in Import Growth*

In volume terms, merchandise import growth accelerated to 10.4 percent in 1999, from 6.1 percent in 1998, consistent with the acceleration in domestic output growth to 4.5 percent in 1999 from 3.3 percent a year earlier. However, the growth in the value of Canada's imports of goods slowed to 7.7 percent from the 9.2 percent growth rate recorded in 1998. The slower pace of growth of imports in value terms reflects developments with respect to imports of M&E. In this sector, import volumes rose steeply, while prices fell (suggesting comparatively elastic demand). Table 11 shows the breakdown of import growth in both value and volume terms, highlighting the role of M&E imports.

**Table 11: Structural Factors Influencing Canada's Merchandise Import Growth (%) in 1999**

| Products                       | Value of imports<br>(\$ billions) | Growth<br>in current dollars | Real growth in 1992<br>constant dollars |
|--------------------------------|-----------------------------------|------------------------------|---|
| Agriculture and fishing        | 17.6                              | 2.2                          | 4.6                                     |
| Energy                         | 10.6                              | 22.7                         | 2.7                                     |
| Forestry                       | 2.7                               | 9.7                          | 13.6                                    |
| Industrial goods and materials | 62.1                              | 3.1                          | 2.7                                     |
| Machinery and equipment        | 108.2                             | 6.8                          | 15.5                                    |
| Automotive Products            | 75.9                              | 13.7                         | 13.5                                    |
| Other consumer goods           | 37.0                              | 6.9                          | 6.6                                     |
| <b>Total</b>                   | <b>326.7</b>                      | <b>7.7</b>                   | <b>10.4</b>                             |

Source: Statistics Canada, *Canadian International Merchandise Trade 1999*. Catalogue no. 65-001-XPB, December 1999.

The rapid growth of machinery and equipment in volume terms was particularly important for Canada in 1999, as it represented a significant expansion of production capacity at a time when the economy was operating at very high rates of capacity use. The fact that the expansion of imports by over 15 percent was effected with an increase in payments of less than 7 percent also calls to mind the advantages of purchasing inputs in a large and competitive international market where economies of scale and fierce competition work to the advantage of the small buyer.

Also noteworthy was the sharp increase in energy imports. While Canada is a net energy exporter, parts of Eastern Canada are net importers. Hence, the terms of trade gains from the rebound in commodity prices that worked to Canada's advantage worked to the disadvantage of parts of Eastern Canada.





**Table 12: Value, Share and Growth of Canada's Goods Trade (Balance of Payments Basis)**

| Industry               | Level<br>(\$ billions) |       |       | Share of Total<br>in % |       |       | Cumulative<br>% Growth | Growth<br>(%) |
|------------------------|------------------------|-------|-------|------------------------|-------|-------|------------------------|---------------|
|                        | 1989                   | 1998  | 1999  | 1989                   | 1998  | 1999  |                        |               |
| <b>Exports</b>         |                        |       |       |                        |       |       |                        |               |
| Total                  | 147.0                  | 322.3 | 360.6 | 100.0                  | 100.0 | 100.0 | 145.4                  | 11.9          |
| Agricultural & fishing | 11.6                   | 25.1  | 25.6  | 7.9                    | 7.8   | 7.1   | 121.3                  | 1.9           |
| Energy                 | 13.7                   | 23.9  | 30.3  | 9.3                    | 7.4   | 8.4   | 120.8                  | 26.8          |
| Forestry               | 21.5                   | 35.2  | 38.9  | 14.6                   | 10.9  | 10.8  | 81.2                   | 10.6          |
| Industrial             | 32.3                   | 57.5  | 56.9  | 22.0                   | 17.8  | 15.8  | 76.4                   | -0.9          |
| M & E                  | 24.0                   | 78.8  | 85.0  | 16.3                   | 24.5  | 23.6  | 254.5                  | 7.8           |
| Automotive             | 34.0                   | 77.4  | 96.1  | 23.1                   | 24.0  | 26.7  | 183.0                  | 24.2          |
| Consumer goods         | 2.6                    | 12.4  | 13.6  | 1.8                    | 3.9   | 3.8   | 415.4                  | 9.4           |
| <b>Imports</b>         |                        |       |       |                        |       |       |                        |               |
| Total                  | 139.2                  | 303.4 | 326.7 | 100.0                  | 100.0 | 100.0 | 134.6                  | 7.7           |
| Agricultural & fishing | 8.3                    | 17.3  | 17.6  | 5.9                    | 5.7   | 5.4   | 113.7                  | 2.2           |
| Energy                 | 6.2                    | 8.7   | 10.6  | 4.5                    | 2.9   | 3.3   | 71.1                   | 22.7          |
| Forestry               | 1.4                    | 2.5   | 2.7   | 1.0                    | 0.8   | 0.8   | 101.8                  | 9.7           |
| Industrial             | 26.9                   | 60.3  | 62.1  | 19.3                   | 19.9  | 19.0  | 130.8                  | 3.1           |
| M & E                  | 43.3                   | 101.3 | 108.2 | 31.1                   | 33.4  | 33.1  | 149.9                  | 6.8           |
| Automotive             | 31.9                   | 66.8  | 75.9  | 22.9                   | 22.0  | 23.2  | 137.6                  | 13.7          |
| Consumer goods         | 15.0                   | 34.6  | 37.0  | 10.8                   | 11.4  | 11.3  | 146.0                  | 6.9           |
| <b>Balance</b>         |                        |       |       |                        |       |       |                        |               |
| Total                  | 7.7                    | 18.9  | 33.9  |                        |       |       |                        |               |
| Agricultural & fishing | 3.3                    | 7.9   | 8.0   |                        |       |       |                        |               |
| Energy                 | 7.5                    | 15.2  | 19.7  |                        |       |       |                        |               |
| Forestry               | 20.1                   | 32.7  | 36.2  |                        |       |       |                        |               |
| Industrial             | 5.3                    | -2.8  | -5.2  |                        |       |       |                        |               |
| M & E                  | -19.3                  | -22.5 | -23.3 |                        |       |       |                        |               |
| Automotive             | 2.0                    | 10.7  | 20.2  |                        |       |       |                        |               |
| Consumer goods         | -12.4                  | -22.2 | -23.4 |                        |       |       |                        |               |

Source: Statistics Canada, *Canadian International Merchandise Trade 1999*. Catalogue no. 65-001-XPB, December 1999. Note: Sums do not add up to 100 because special transactions and inland freight and other balance of payments adjustments figures, which are part of the merchandise trade account, are not included.



## *Merchandise Trade Balance*

In 1999, the merchandise trade surplus increased to \$33.8 billion from \$19.1 billion in 1998. This compares to a recent peak surplus of almost \$42 billion in 1996. The sectors with surpluses (agriculture and fishing, energy products, forestry, and automotive) widened their surpluses, while deficit sectors (industrial products, M&E and consumer goods) experienced a deepening of their deficits. The expansion of the surplus on automotive products to \$20.2 billion in 1999 from \$10.7 billion a year earlier accounted for most of the increase in the overall surplus.

In terms of trading partners, the merchandise trade surplus with the U.S. grew to a record \$60.1 billion in 1999, up from \$35.7 billion in 1998 and easily surpassing the previous record of \$42.5 billion in 1996. Elsewhere, the deficit in merchandise trade with the U.K. rose to \$2.3 billion (1998: \$1.2 billion); with other EU countries it rose to \$7.9 billion (1998: \$6.3 billion); while with Japan, the deficit widened to \$1.4 billion in 1999.<sup>3</sup>

## *Developments with Respect to the Terms of Trade<sup>4</sup>*

Canada is a net commodity exporter: in 1999, exports of food, energy and other non-chemical industrial materials totalled \$133.2 billion, while imports amounted to \$70.5 billion, generating a surplus of \$62.7 billion. The rise in commodity prices in 1999<sup>5</sup> contributed to an increase in Canada's merchandise export prices.<sup>6</sup> At the same time, merchandise import prices remained flat. This resulted in the terms of trade improving by 1.6 percent. This accounted for much of the improvement in the trade balance since, in volume terms, merchandise export growth (10.5 percent) barely outpaced import growth (10.4 percent). Figure 2 compares movements in an index of global commodity prices to movements in Canada's terms of trade. As can be seen, the direction of movement in the terms of trade follows closely the movement of commodity prices, although fluctuations in the terms of trade are smaller than those in commodity prices, since Canada is also a major exporter of manufactured goods.

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<sup>3</sup> The balances with individual trading partners are based on Canada's export data; again, the picture would look somewhat different using partner country import data.

<sup>4</sup> Movements in the price of exports relative to the price of imports are referred to as changes in a country's "terms of trade." An improvement in the terms of trade (i.e. a rise in export prices relative to import prices) means that a country's purchasing power has increased. In other words, the earnings from a given quantity of exports purchase a greater quantity of imports. Conversely, a decline in the terms of trade requires a country to export more to pay for a given quantity of imports. The terms of trade are normally measured as the index of average export prices, divided by the index of average import prices. The terms of trade are influenced by many factors, including commodity price changes, exchange rate movements, domestic and international supply and demand conditions, changes in the mix of products exported and imported, and domestic cost and productivity trends; accordingly, care must be exercised in interpreting changes in this indicator.

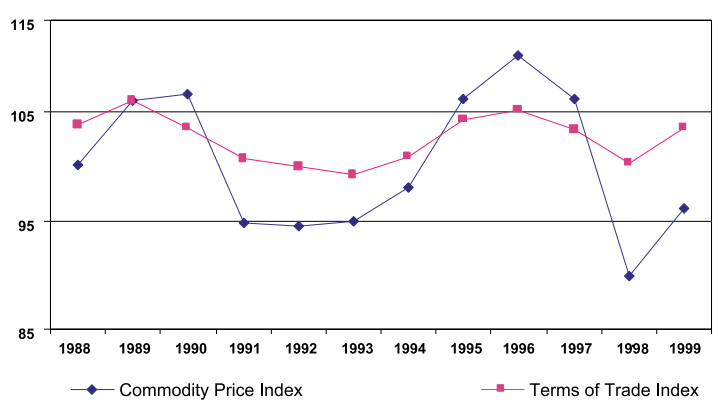
<sup>5</sup> The Bank of Canada's energy price index recovered from a low of 64.6 in 1998 to average 78.8 in 1999. The industrial materials price index (which includes metals, minerals, forest products and other non-energy raw materials) rose from 108.0 in 1998 to 112.0 in 1999.

<sup>6</sup> The direction of movement of average export prices in 1999 depends on the measure used. The implicit deflator for exports (derived by dividing the value of exports by the volume) rose from 1.15 to 1.16, an increase of 1.2 percent. However, the fixed-weight index of export prices that Statistics Canada uses in calculating Canada's reported terms of trade rose by 1.6 percent. The choice of index does not materially affect the conclusions, although the numbers do change somewhat; in this analysis, the fixed-weight index is used.





**Figure 2: Canada's Commodity Price Index and Terms of Trade, 1988-1999**



Source: Bank of Canada, *Banking and Financial Statistics* (various issues).

### *The Rising Import Content of Exports: Some Implications*

With the deepening of integration of production across borders, an increasing proportion of Canada's export-oriented production is composed of imported intermediate products. This has profound implications for the interpretation of the impact of exports on the economy, as discussed in Box 4.

#### ***Box 4: Import Content of Exports: Implications for Jobs and Growth***

Reflecting the continued integration of Canada into the global economy, domestic production of goods and services for export as well as for domestic final consumption has increasingly relied on imported intermediate goods — in other words, the import content of exports has been growing. In Canada, the import content of exports is estimated to have grown from 27.6 percent in 1986 to 31.7 percent in 1996.<sup>7</sup> This is a widespread phenomenon across industries, with most industries showing an increase in import content.<sup>8</sup> This has several implications for the interpretation of trade performance.

First, this trend tightens the relationship between export and import growth, as export growth leads to increased demand for imported inputs. Part of the strength of import growth in recent years can be traced to Canada's strong export performance rather than to the strength of domestic demand alone.

<sup>7</sup> Source: Statistics Canada, Input-Output Division.

<sup>8</sup> Source: Cameron, G. and Cross P., "The Importance of Exports to GDP and Jobs," *Canadian Economic Observer*, November 1999. The Cameron-Cross study found that 17 of the 20 commodity groups studied registered an increase the import content of exports over the period 1986-1995.



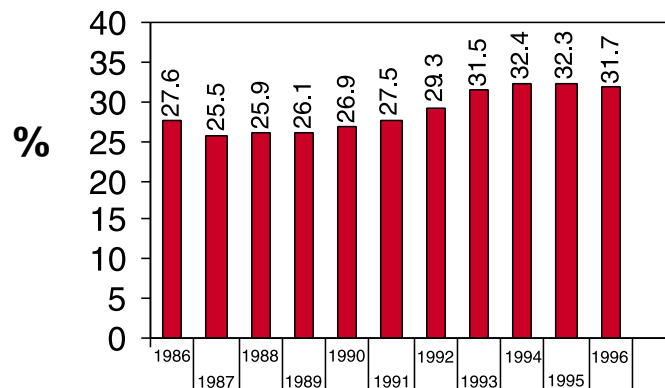


Second, as a result of this trend, the growth in gross export flows has exceeded the growth in the domestic value-added content of exports. In 1986, total exports of goods and services were equivalent to 27.9 percent of GDP; the domestic value-added content of those exports meanwhile was 21.5 percent of GDP. By 1996, total exports as a share of GDP had grown to 38.4 percent — an increase of 10.5 percentage points — while the domestic value-added content had increased to 26.3 percent, a gain of 5.2 percentage points or roughly half as much. Extrapolating these trends to 1999 when the share of GDP of total exports of goods and services reached 43.1 percent, the domestic value-added content would have risen to the neighbourhood of 30 percent of GDP.

Third, the domestic value-added and job content of exports depends very much on the sectoral composition of exports. For example, the domestic value-added content of exports of motor vehicles is only about 36.5 percent, whereas for auto parts it is about 62.3 percent (based on 1996 data). Moreover, the job content is very different: \$1 billion of exports of motor vehicles supports about 4580 jobs, whereas an equivalent volume of exports of motor vehicle parts supports 9280 jobs (again based on 1996 data). At the other end of this spectrum, in private educational services, domestic content is 89 percent and \$1 billion of exports would support 25 110 jobs in this industry (although the volume of exports in this category falls well below the billion dollar mark). In health and social services exports, domestic content was 89.7 percent and \$1 billion of exports would support 22 238 jobs (again, the volume of exports in this category falls well below the billion dollar mark).

As a result of this trend, a growing volume of exports is required to support a given number of jobs (other factors are, of course, working in the same direction: e.g. growth in productivity due to capital investment and efficiency gains have the same effect). In 1986, \$1 billion worth of exports supported approximately 12 800 jobs; in 1996, the latest year for which the data are available, \$1 billion worth of exports supported an estimated 10 400 jobs. Extrapolating this trend to 1999, the job content of exports last year would have been on the order of 10 000.

**Figure 3: Import Content of Exports, 1986-1996**



## TRADE IN SERVICES

In 1999, exports of services reached \$51.8 billion, which accounted for 12.6 percent of total exports of goods and services and represented an increase of 6.0 percent over the 1998 figure of \$48.8 billion. The growth rate in 1999 was slightly lower than the 9.1 percent achieved in 1997. At the same time, imports amounted to \$57.8 billion, which accounted for 15.0 percent of total imports of goods and services and represented an increase of 3.6 percent from \$55.8 billion in 1998.

Services trade is classified into four categories: travel services, transportation services, government services, and commercial services (which includes accounting, legal, insurance, architecture, engineering, and management consulting).

With regard to services exports, in 1999:

- ❑ Commercial services exports grew by 4.7 percent to reach \$26.2 billion or 50.7 percent of total services.
- ❑ Travel exports grew 8.0 percent to reach \$15.1 billion, representing 29.2 percent of total services exports.
- ❑ Transportation services expanded by 5.7 percent to reach \$9.4 billion or 18.1 percent of total services exports.
- ❑ Government services grew by 9.4 percent to \$1.03 billion, accounting for 2 percent of total services exports.

With regard to services imports, in 1999:

- ❑ Commercial services imports grew by 2.8 percent to reach \$28.2 billion or 48.8 percent of total services imports.
- ❑ Travel imports grew 5.7 percent to reach \$16.9 billion, representing 29.2 percent of total services imports.
- ❑ Transportation services imports expanded by 3.0 percent to reach \$12.1 billion or 20.1 percent of total services imports.
- ❑ Government services imports declined by 1.3 percent to \$0.67 billion, accounting for 1.2 percent of total services imports.

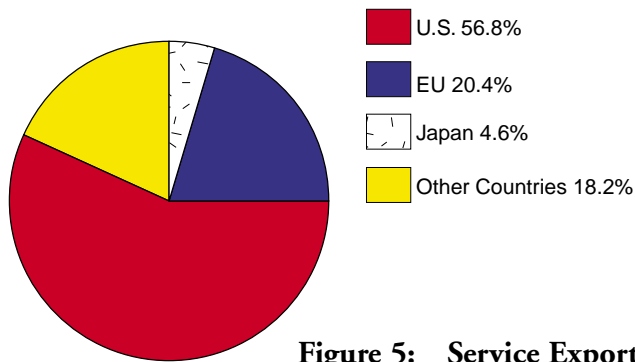
Canada has traditionally been a net importer of services, overall and in all of the individual services categories except government services. The largest deficit has traditionally been in the transportation sector, followed by commercial services and travel services. However, in recent years, the overall deficit has been progressively reduced. In 1999, the deficit in overall services trade declined to \$6.1 billion or 0.63 percent of GDP from \$7 billion or 0.77 percent of GDP in 1998, and from an historical peak of \$13.6 billion (1.9 percent of GDP) in 1993. The reduction over the years was due in large part to a reduction of net travel payments over this period.

With regard to the direction of Canada's trade in services, the U.S. remains Canada's main trading partner. However, the share of the U.S. in Canada's total services trade is smaller than is the case with respect to merchandise trade (Figures 4 to 7). Here as well, however, the U.S. is becoming an increasingly important market, accounting for 60.1 percent of Canada's services exports in 1999, compared to 56.8 percent in 1989.

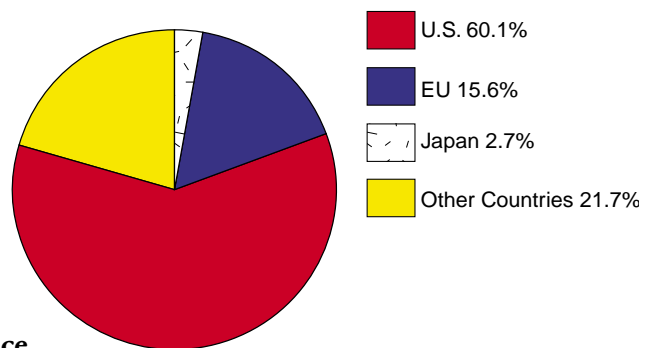
In terms of trading partners, the U.S. saw its share of Canada's imports decline to 61.5 in 1999 from 61.7 percent a decade earlier. The shares of the EU and Japan declined slightly, both as a source and a destination of services trade. The relative shares of other countries increased over the course of the decade.



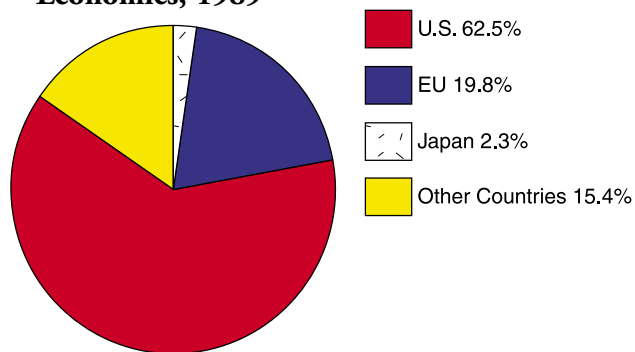
**Figure 4: Service Exports to Selected Economies, 1989**



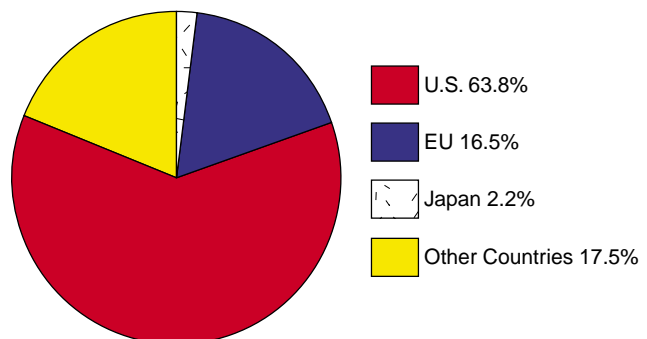
**Figure 5: Service Exports to Selected Economies, 1999**



**Figure 6: Service Imports to Selected Economies, 1989**

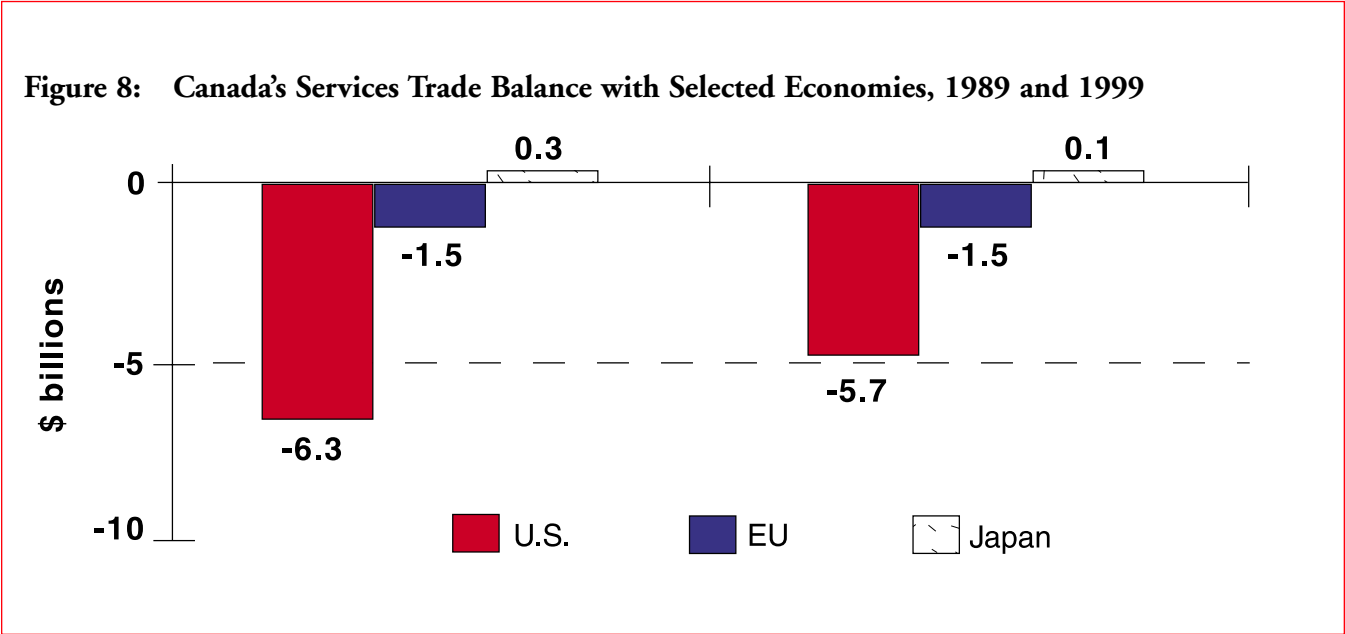


**Figure 7: Service Imports to Selected Economies, 1999**



Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000.

With these developments, Canada's deficit in services trade with the U.S. and the EU fell, while the surplus with Japan was maintained, as shown in Figure 8.



Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000.

**Developments in Canada's Services Trade**

Canada's exports and imports of services have risen at a steady pace over the last two decades. As a share of GDP, Canada's services exports rose to 5.4 percent in 1999 from 3.4 percent in 1989-1992 and 4.4 percent in 1993-1996. Services imports, which have been growing more slowly, have also expanded their share of GDP; in this case, however, the expansion has been minimal — from 4.9 percent in 1989-1992 to 5.8 percent in 1993-1996 and to 6 percent in 1999.

*Table 13: Average Annual Trade in Services, 1960-1999*

|                                    | 1960-1969 | 1970-1979 | 1980-1989 | 1990-1999 | 1997   | 1998   | 1999   |
|------------------------------------|-----------|-----------|-----------|-----------|--------|--------|--------|
| <b>\$ millions</b>                 |           |           |           |           |        |        |        |
| Total exports of services          | 1 543     | 4 381     | 13 867    | 35 025    | 42 207 | 48 848 | 51 755 |
| Total imports of services          | 1 984     | 6 588     | 19 284    | 45 067    | 51 270 | 55 809 | 57 824 |
| <b>%</b>                           |           |           |           |           |        |        |        |
| Share of services in total exports | 13.8      | 10.9      | 10.9      | 12.7      | 12.3   | 12.3   | 12.6   |
| Share of services in total imports | 18.0      | 16.6      | 16.1      | 17.0      | 15.6   | 15.5   | 15.0   |

Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000.



Compared to merchandise trade, the pace of growth of services trade has lagged. Accordingly, the share of services in Canada's exports of goods and services fell to 12.6 percent in 1999, and the share of services imports fell to 15.0 percent.

The comparatively slow pace of growth of Canada's services trade is even more graphically evident in international comparisons. Measured in U.S. dollars, the cumulative growth rate of Canada's two-way trade in services from 1990 to 1998 was only 43 percent, whereas the rate for the world was 64 percent, and for the U.S., 76 percent.

#### ***Box 5: Knowledge-based Sectors Drive Commercial Services Trade***

The commercial services sector has by far the largest share and the fastest growth record in Canada's trade in services. In 1999, commercial services accounted for 50.7 percent of exports of services and 48.8 percent of imports.

Commercial services include many of the sectors in which knowledge-based activities predominate. Accordingly, success in this sector is important to Canada's continued evolution as a knowledge-based economy. As shown in Table 14, the fastest growth has been recorded in the knowledge-intensive subsectors of commercial services, particularly in royalties and licence fees, and research and development.

**Table 14: Components of Commercial Services, 1993-1999**

| Components of commercial services                      | Value (\$ millions) |               | Annual average growth<br>1993-1999 |
|--|---------------------|---------------|------------------------------------|
|  | 1993                | 1999          |                                    |
| Communications services                                | 1 417               | 2 009         | 6.0                                |
| Construction services                                  | 88                  | 291           | 22.1                               |
| Insurance services                                     | 2 810               | 3 902         | 5.6                                |
| Other financial services                               | 850                 | 1 434         | 9.1                                |
| Computer and information services                      | 1 043               | 1 618         | 7.6                                |
| Royalties & licence fees                               | 308                 | 1 750         | 33.6                               |
| Non-financial commissions                              | 383                 | 735           | 11.5                               |
| Equipment rentals                                      | 204                 | 286           | 5.8                                |
| Management services                                    | 1 120               | 2 446         | 13.9                               |
| Advertising & related services                         | 160                 | 355           | 14.2                               |
| Research and development                               | 997                 | 2 855         | 19.2                               |
| Architectural, engineering, & other technical services | 1 398               | 3 386         | 15.9                               |
| Miscellaneous services to business                     | 1 603               | 3 724         | 15.1                               |
| Audio-visual services                                  | 599                 | 1 436         | 15.7                               |
| <b>Total</b>   | <b>13,113</b>       | <b>26,227</b> | <b>12.3</b>                        |

Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000.





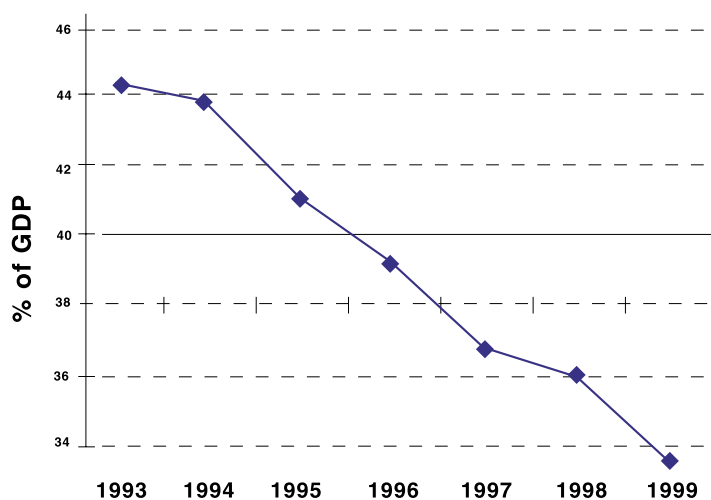
## INVESTMENT INCOME

2000

First Annual Report on  
Canada's State of Trade  
Second Edition

Investment income consists of income earned as interest, dividends and reinvested earnings on investments (direct, portfolio and other categories) by Canadians abroad and by foreigners in Canada. Canada has historically run a deficit on its net investment income account, as money earned by non-residents on their Canadian investments has substantially exceeded the earnings of Canadians on their investments abroad. This reflects the fact that, for the most part, Canada has been a net capital importing country for much of its history. Accordingly, the stock of Canada's external liabilities (on which foreigners earn investment income), which stood at \$964 billion at the end of 1999, was substantially greater than the stock of Canadian assets abroad (on which Canadians earn investment income), which was \$663.7 billion. As a result, Canada had a net international investment position of \$300.3 billion or about 33 percent of GDP. This share has been in decline in recent years (see Figure 9), with a particularly sharp drop in 1999 as the level of net external debt fell by 7.9 percent while GDP rose strongly. The decline in net external indebtedness in 1999 is particularly noteworthy, since it was the first such decline in 60 years.

**Figure 9: Net Foreign Liabilities as a Share of GDP, 1993-1999**



Sources: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue no. 13-001-PPB, 4th Quarter 1999. *Canada's International Investment Position*, Catalogue no. 67-202-XIB, 1999.

### In 1999:

- Investment income earned by Canadian residents on investments abroad totalled \$31.6 billion. Of this, 47 percent was on direct investment, 12 percent on portfolio investment and the remaining 41 percent on other investment (which includes loans, deposits, reserves and other assets).
- Income earned by foreign residents on investments in Canada totalled \$63.8 billion. Of this, about 31 percent was on FDI, 47 percent on portfolio investment, and the remaining 22 percent on other investment.
- Canada had a deficit of \$32.2 billion on the investment income account, an increase of \$3.0 billion from the previous year. About 82 percent of this deficit was contributed by the deficit in portfolio investment earnings.
- The deficit on investment income was almost as large as Canada's merchandise trade surplus account (\$33.8 billion).



### *Current Account*

The current account balance is the sum of the balances on trade (merchandise and services), investment income and transfers. Analytically, a surplus on the current account indicates that a country has earned (or obtained via transfers) more money abroad than it has paid out, and is thus a net saver internationally (which is mirrored in a net outflow of capital and thus a deficit on the capital account). By the same token, a current account deficit means that a country is a net borrower internationally (as reflected in a net inflow of capital and thus a surplus on the capital account). In an accounting sense, a current account deficit reflects a shortage of domestic savings relative to domestic investment.

Since the early 1970s, Canada has consistently run deficits on the current account. In good measure, the emergence of a structural deficit in the current account coincided with the emergence of a structural deficit in public-sector finances. In the 1990s, Canada has brought the public sector deficit down (the share of government budget deficit as a proportion of GDP reached its highest level of 8 percent in 1992, before turning into a surplus in 1997 and the years since). At the same time, however, the share of private savings in Canadian GDP has fallen continuously, to 16.4 percent in 1999 from 22 percent in the first half of the 1980s. As a result, Canada has consistently required net borrowing from abroad to finance domestic investment.

*Table 15: Domestic Savings and Investment, as Share of GDP, 1981-1999*

|           | Private    |                | Public                        |   | Current account balance |
|-----------|------------|----------------|-------------------------------|---|-------------------------|
|           | Saving (%) | Investment (%) | Excess saving over investment | Budget surplus (+) / Budget deficit (-) |                         |
| 1981-1985 | 22.2       | 17.8           | 4.4                           | -5.6                                    | -1.3                    |
| 1986-1990 | 19.8       | 18.9           | 0.9                           | -4.2                                    | -3.3                    |
| 1991-1995 | 18.5       | 15.2           | 3.4                           | -6.5                                    | -2.9                    |
| 1996      | 18.7       | 15.2           | 3.5                           | -0.6                                    | 0.6                     |
| 1997      | 17.0       | 18.2           | -1.2                          | 2.0                                     | -1.7                    |
| 1998      | 16.3       | 17.9           | -1.6                          | 1.9                                     | -1.9                    |
| 1999      | 16.4       | 17.8           | -1.4                          | 3.6                                     | -0.4                    |

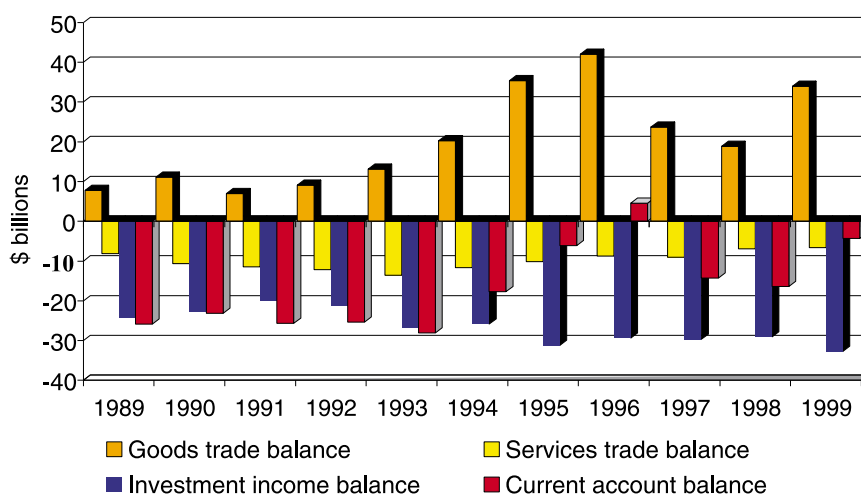
Source: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue no. 13-001-PPB, 1st Quarter 2000. Note: Due to the statistical discrepancy in the national accounts, the sum of the shares of excess private saving over private investment and budget surplus or deficit in GDP may not add to the share of current account deficit in GDP.

In 1999, as in each year of the 1990s except 1996, Canada had a deficit on the current account. However, the level of deficit — \$3.4 billion or 0.4 percent of GDP — was down significantly from \$16.3 billion or 1.9 percent of GDP in 1998 (Figure 10). The contraction in the current account deficit in 1999 was largely driven by an increase in the goods surplus.





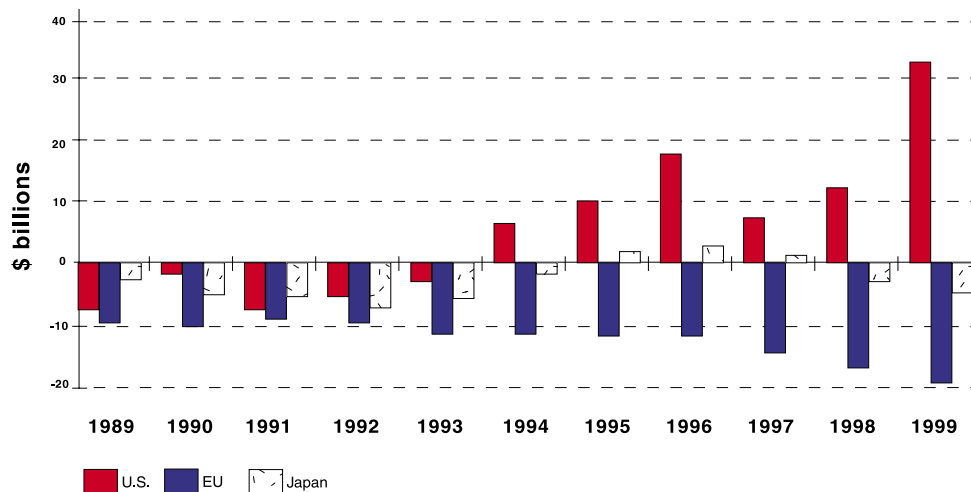
**Figure 10: Structure of Canada's Current Account, 1989-1999**



Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000.

In the 1990s, Canada's growing current account surplus with the U.S. was partly offset by a rising deficit with the EU. The balance with Japan has tended to be small, with some cyclical variation (see Figure 11). Canada's current account surplus with the U.S. — \$32.4 billion in 1999 — was the largest ever on this account. Canada's current account deficit with the EU widened to \$18.3 billion in 1999 from \$15.1 billion in 1998. With respect to Japan, Canada had a brief period of current account surpluses during the period 1995-1997, but these turned into deficits of \$3.4 billion in 1998, widening to \$4.2 billion in 1999.

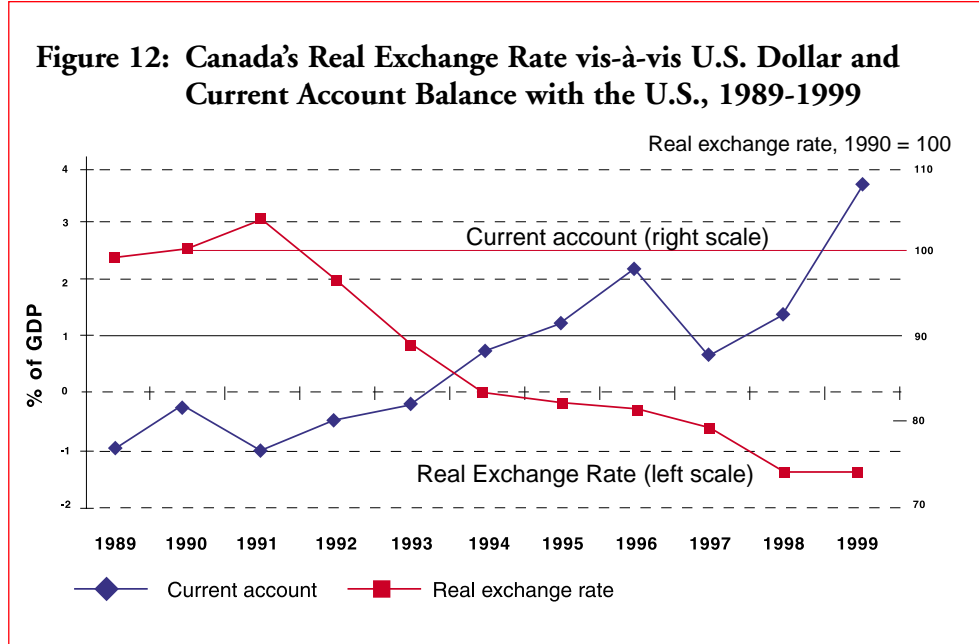
**Figure 11: Current Account Balance with Major Trading Partners, 1989-1999**



Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000.



As can be seen from Figure 12 below, the improvement in Canada's bilateral balance with the U.S. from deficit to surplus in 1994 was inversely related to the depreciation of the Canadian dollar in real terms over this period;<sup>9</sup> other factors, such as the stronger cyclical recovery in the U.S. were also important influences.



Sources: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000. Bank of Canada, *Banking and Financial Statistics*, February 2000.

<sup>9</sup> In Figure 12, Canada's real exchange rate vis-à-vis the U.S. is calculated as the price of U.S. goods in terms of the price of Canadian goods (as the term "real" implies). This calculation shows that a bundle of Canadian goods that could buy one bundle of U.S. goods in 1990 could buy only 74 percent as much in 1999.



## CAPITAL AND FINANCIAL ACCOUNTS

The capital and financial accounts consist of inflows and outflows of direct investment, portfolio investments and other investments (loans, deposits, international reserves and other assets).

### DIRECT INVESTMENT

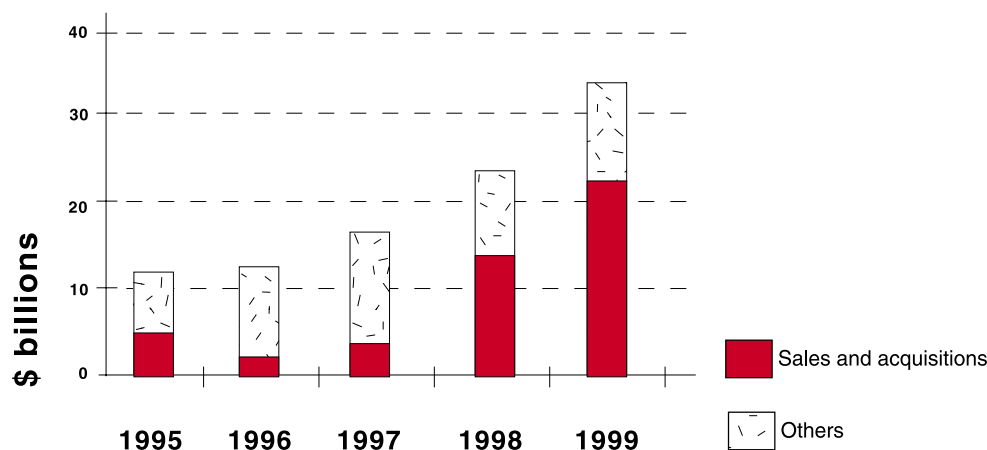
Foreign direct investment into Canada in 1999 rose 15.5 percent, to a record \$37.2 billion. Inflows from the U.S. increased by 57.2 percent to \$38.4 billion, from \$24.4 billion in 1998, mainly as a result of acquisitions of Canadian firms by U.S. investors (see Figure 13).

Trade Update

2000

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**Figure 13: FDI in Canada: Sales, Acquisitions and Other Flows, 1995-1999**



Sources: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000. Bank of Canada, *Banking and Financial Statistics*, February 2000.

It is noteworthy that the FDI inflows from the U.S. were actually larger than total FDI inflows to Canada in 1999. This reflects the fact that the inflow from the U.S. covered negative FDI (i.e. net repatriation of direct investment) from Japan and the United Kingdom.

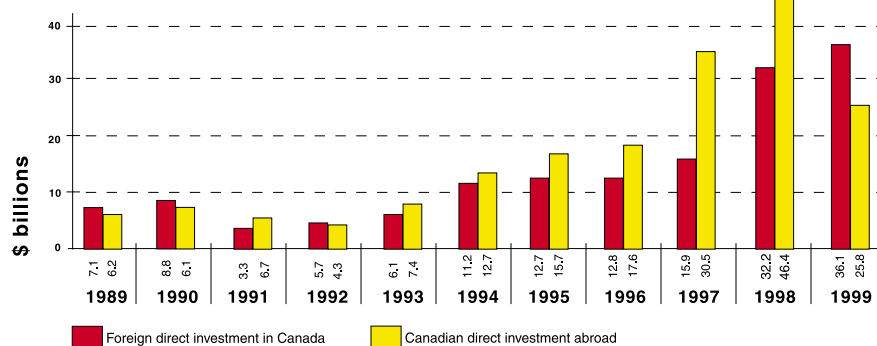
In terms of sectors, the leaders were finance and insurance, machinery, and transportation equipment.

The outflow of CDIA in 1999 amounted to \$26.5 billion, down 42.8 percent from \$46.4 billion in 1998, the first decline on an annual basis since 1992.

The fall in investment outflow was spread across several countries, but was concentrated in the U.S. market: CDIA into the U.S. fell from \$27.7 billion in 1998 to \$17.4 billion, a decline of 37 percent. Nevertheless, the U.S. remained by far the main destination of CDIA, accounting for 65.7 percent of total outflows. In contrast to 1998 when Canadian investors reduced direct investments in the U.K., other EU economies and Japan, these flows increased in 1999. In terms of sectors, the finance and insurance sector had the highest share at 41.8 percent of the total outflows. The outflows in traditional sectors for CDIA such as energy and metallic minerals fell from their 1998 levels.

Over the period 1993-1998, CDIA consistently exceeded FDI. In 1999, however, FDI exceeded CDIA by \$10.8 billion (Figure 14). The high level of two-way flows suggests that the main driving forces have been shifts in the underlying structure of industry and trade in response to global market forces, rather than transient factors such as exchange rate movements or cyclical fluctuations.

**Figure 14: Flows of FDI and CDIA, 1989-1999**



Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000.

With these developments, the stock of FDI rose to \$240 billion at year-end 1999, while CDIA reached \$257 billion. As shown in Table 16, finance and insurance had the highest sectoral shares in both CDIA and FDI stocks in 1999.

**Table 16: Stocks of CDIA and FDI by Sector, Year End 1999**

| Industry Group                       | CDIA         |              | FDI          |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
|                                      | \$ billions  | % of total   | \$ billions  | % of total   |
| Wood & paper                         | 7.1          | 2.8          | 18.4         | 7.7          |
| Energy & metallic minerals           | 54.1         | 21.0         | 39.2         | 16.3         |
| Machinery & transportation equipment | 12.2         | 4.8          | 27.2         | 11.3         |
| Finance & insurance                  | 85.3         | 33.2         | 50.1         | 20.9         |
| Services & retailing                 | 34.0         | 13.2         | 19.4         | 8.1          |
| Other industries                     | 64.7         | 25.2         | 85.7         | 35.7         |
| <b>Total</b>                         | <b>257.4</b> | <b>100.0</b> | <b>240.0</b> | <b>100.0</b> |

Source: Statistics Canada, *Canada's International Investment Position*, Catalogue no. 67-202-XIB, 1999.

With respect to the country of source, the U.S. accounted for 72.2 percent of the total FDI stock in Canada in 1999, followed by the U.K. at about 6 percent. As for the stock of CDIA, the U.S. accounted for 52.2 percent while the EU accounted for 20.4 percent.

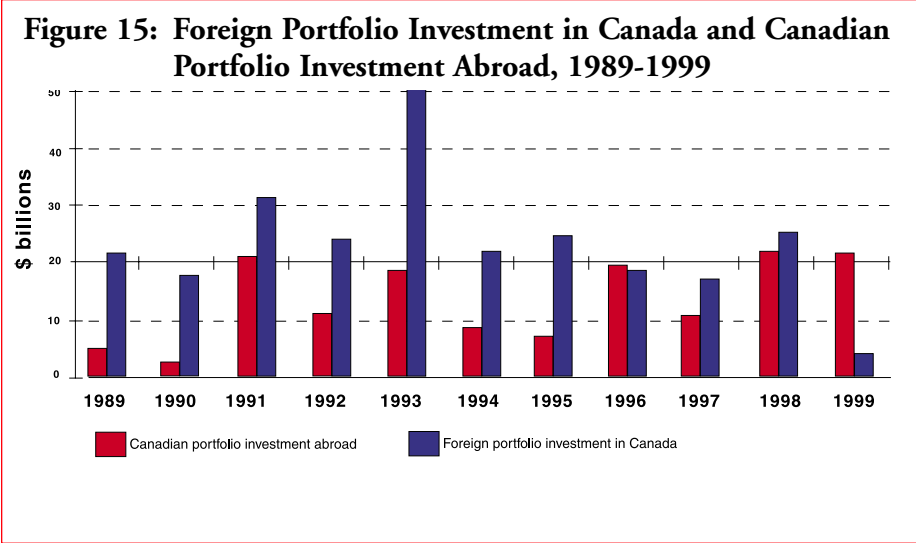
### *Portfolio Investment*

Portfolio investment inflows, which include investments in Canadian bonds, stocks and money market instruments, fell sharply in 1999 to a record low of \$5.3 billion from \$25.4 billion in 1998. This was largely due to a net withdrawal of \$13.4 billion of foreign investment from Canadian money markets in 1999.



Canadian portfolio investment abroad changed little, rising marginally to \$22.9 billion in 1999 from \$22.5 billion in 1998. The composition of Canadian portfolio investment outflows changed, however, as Canadians invested more in foreign stocks and less in foreign bonds in 1999 compared to 1998 levels.

The year 1999 marked only the second time since 1956 that Canadian portfolio investment abroad exceeded foreign portfolio investment in Canada. The other year was 1996, when outflow exceeded inflows by \$0.9 billion. In 1999, the difference between these two flows was \$17.6 billion (Figure 15).



Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000.

In 1999, the stock of portfolio investment abroad by Canadians increased to \$163.7 billion, whereas the stock of foreign portfolio investment in Canada declined to \$495.5 billion.



## SUMMARY OF BALANCE OF PAYMENTS

Table 17 summarizes Canada's overall balance of payments picture in 1999. By standard accounting practices, a country's balance of payments account is always balanced. That is, a current account deficit must be offset exactly by running a capital and financial account surplus, and vice versa. In 1999, the former was the case.

Of particular note, the Canadian official settlement balance was a positive \$8.8 billion, which indicates that the Bank of Canada added that much to its foreign exchange reserve, a positive development in what was overall a highly successful year for Canada in terms of its international economic activity.

*Table 17: Canada's 1999 Balance of International Payments Accounts (\$ millions)*

| Current Account                                 |           |                  |
|---|-----------|------------------|
| • Exports of goods and services                 | \$412 364 |                  |
| • Imports of goods and services                 | \$384 645 |                  |
| a. Trade balance                                |           | \$27 719         |
| • Investment income abroad                      | \$31 601  |                  |
| • Investment income of foreigners               | \$63 768  |                  |
| b. Net investment income                        |           | -\$32 167        |
| c. Net current transfer                         |           | \$1 002          |
| <b>1. Current account balance (a + b + c)</b>   |           | <b>-\$4 446</b>  |
| Financial Account                               |           |                  |
| • Canadian direct investment abroad             | -\$26 469 |                  |
| • Foreign direct investment in Canada           | \$37 232  |                  |
| d. Net foreign direct investment                |           | \$10 763         |
| • Portfolio investment abroad                   | -\$22 898 |                  |
| • Portfolio investment in Canada                | \$5 290   |                  |
| e. Net portfolio investment                     |           | -\$17 608        |
| f. Other net investment                         |           | -\$4 548         |
| <b>2. Financial account balance (d + e + f)</b> |           | <b>-\$11 393</b> |
| Of which:                                       |           |                  |
| - official international reserve                |           | - \$8 818        |
| - non-reserve financial account                 |           | -\$2 575         |
| <b>3. Capital account balance</b>               |           | <b>\$5 091</b>   |
| <b>4. Statistical discrepancy</b>               |           | <b>\$9 748</b>   |
| <b>Balance of payments (1 + 2 + 3 + 4)</b>      |           | <b>\$0</b>       |

Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000.





**TRADE BY PROVINCE**

In the 1990s, provincial and territorial international trade patterns were significantly influenced by a number of economic events, such as free trade agreements, the volatility in world commodity prices, the explosive growth of the high-tech economy and the adjustment in the external value of the Canadian dollar. The relative importance of these driving forces varied greatly, reflecting diversity in industry mix and resource endowment.

*Alberta*

Alberta's endowments of oil and natural gas continued to dominate the province's exports in the 1990s. Over this period, however, Alberta's industry mix underwent substantial diversification, making the economy less susceptible to global volatility in energy prices. The major factors behind the success of diversification efforts were the relaxation in export restrictions associated with the implementation of free trade agreements with the United States and Mexico, and the prolonged strong growth of the U.S. economy. Outside oil and gas, the major sectors contributing to the export expansion included: cattle and calves; chemicals; machinery and equipment; wood and paper products; and electronics and communications equipment. Alberta's major imports were machinery and equipment, and industrial goods. Over the 1990s, Alberta enjoyed a large surplus in its merchandise trade, with exports typically 50 percent higher than the level of imports. The surplus in merchandise trade more than offset the deficit in services, which began to narrow in recent years. In 1999, Alberta's surplus in merchandise trade rose to \$10.8 billion; exports jumped by 11.4 percent while imports fell by 4.6 percent.

*British Columbia*

With excellent trade connections to Asia and the U.S. West Coast, international trade plays a paramount role in economic activity in B.C. While resource-based goods (e.g., lumber, pulp and newsprint, coal and metals) have traditionally accounted for the bulk of exports, recent years have seen substantial growth in sales of high-tech electronics products, and specialized machinery and equipment. Trade disputes with the United States led to the imposition of quota restrictions on sales of softwood lumber to that country; and since these sales were considerable, the move adversely affected B.C.'s exports. The 1990s saw robust rises in exports of machinery and equipment, such as computer equipment and logging and pulp and paper machinery. On the import side, the major categories were transportation equipment, computer equipment and machinery, and equipment used in the forestry and mining industries. The province registered a merchandise trade surplus throughout most of the 1990s. Exceptions were the years 1997 and 1998, when resource-based exports were hit hard by the economic downturn in major B.C. markets in Southeast Asia. The poor trade performance in 1997 and 1998 would have been worse without the substantial decline in value of the Canadian dollar against the U.S. dollar. In 1999, B.C. again achieved a merchandise trade surplus amounting to \$2.1 billion; this reflected a 10.2 percent jump in exports, exceeding the 5.6 percent growth in imports. Unlike most of Canada's other larger provinces, B.C. recorded a persistent surplus in trade in services, such as tourism, financial services, and business services related to the sale and distribution of goods.

### *Manitoba*

Benefiting from its central location in North America and its diversified economy, Manitoba has seen its trade expand rapidly in recent years. Merchandise exports in 1999 were more than 80 percent higher than in 1992, for an average annual growth of about 10 percent. Among the major contributors to export growth were agriculture, mining and manufacturing. Recent years have brought strong growth in exports of agri-food, such as grains and oilseeds, vegetables and vegetable products, and hog and cattle products; accounting for much of the success have been Maple Leaf Foods and J.M. Schneider. In manufacturing, the strongest export growth in the 1990s was in machinery and transportation equipment, with leading firms being Bristol Aerospace, Boeing and other aerospace companies, Ford New Holland (farm implements), New Flyer Industries (buses) and Motor Coach Industries. Manitoba's merchandise imports also rose rapidly in the 1990s, as a result of purchases of manufactured products. The merchandise trade flow was in near balance over the decade. It reverted to a surplus position in 1999, as exports edged down slightly while imports fell by 9.8 percent. Manitoba had a persistent services trade deficit in the 1990s.

### *New Brunswick*

Among New Brunswick's chief export sectors are forest products (including newsprint, lumber and pulp), coal, food products (including meat, fish, dairy, fruit, potatoes, vegetables and feed), shipbuilding, zinc and lead metals, and the rapidly expanding sale of petroleum products to markets in the eastern United States. The province exported electricity, purchased from Hydro-Québec, to Maine. Among imports, the most important category was that of crude petroleum, used at the Saint John refinery. From 1994, New Brunswick's merchandise trade was in a deficit position as imports grew at a rate of 9.6 percent per year, outstripping the 7.4 percent annual growth in exports. The merchandise trade deficit rose to \$0.86 billion in 1999, as trade growth was stronger in imports (14.2 percent) than exports (11.2 percent). New Brunswick's services trade flow improved to near-balance in 1997 and 1998.

### *Newfoundland*

Newfoundland's key export industries are fishing, mining and newsprint. Exports grew strongly by 12.5 percent per year in the 1990s, although they were hampered by restrictions under the Moratorium on Northern Cod, imposed in July 1992. With the beginning of offshore oil production from the Hibernia project, petroleum started to play a rising role in exports. Potential export sources are nickel from Inco's Voisey's Bay deposit and oil from Terra Nova. Imports also grew at a double-digit annual rate, dominated by machinery and equipment, motor vehicles, electrical and communications products, and construction materials. The province enjoyed a persistent merchandise trade surplus, which more than offset the small services trade deficit. In 1999, both merchandise exports and imports were up by 10.7 percent.

### *Nova Scotia*

Foreign trade plays an important role in the economy of Nova Scotia, which is a strategic shipping link between Europe and the U.S. ports of Boston and New York. In the 1990s, export sales were led by fish and forestry products, such as newsprint and paper. Also significant were exports of automotive products from manufacturing facilities established by Michelin and Volvo. Another source of economic activity was tourism. Accounting for the bulk of imports were transportation products and parts, and crude petroleum destined for refineries for domestic consumption. Nova Scotia was the only province to record persistent deficits in both goods and services. However, in the 1990s the merchandise balance improved as exports grew at an annual rate of 10.3 percent, exceeding the 7.7 percent growth in imports. The merchandise trade deficit fell sharply in 1999 to \$0.29 billion; exports increased by 15.6 percent and imports fell by 11.3 percent.



### *Ontario*

In value terms, Ontario was the undisputed leader in export and import trade in the 1990s. As Canada's manufacturing heartland, Ontario is the base for many of the nation's firms in the automotive, machinery, equipment and electronics industries. Exports of manufactured goods skyrocketed in the decade, boosted by the integration of industrial production and specialization associated with the Canada–U.S. Free Trade Agreement. Merchandise exports grew at an annual compound rate of 13.3 percent, spurred by the robust growth of the U.S. economy. Manufactured goods accounted for 80 percent of Ontario's exports, with 40 percent consisting of exports of transportation equipment and parts. Much of the manufacturing production required extensive imports of automotive parts from the United States for large-scale production of a small number of designated motor vehicle models. With expansion of the information economy, Ontario's high-tech sector grew rapidly despite an intensely competitive global environment. In particular, from 1992 annual growth averaged 14 percent in the production of telephone and related communications equipment, computers, peripheral equipment and office machinery. Among other manufactured goods contributing significantly to exports were metal fabricated products, chemicals, and rubber and finished plastic products. Merchandise import growth averaged 11.8 percent from 1992 to 1999. Accounting for 80 percent of all imports in 1999 were manufactured products, dominated by automotive products and by machinery and equipment. The merchandise trade surplus reached a record high of \$18.7 billion in 1999; trade growth was substantially stronger in exports (13.6 percent) than imports (8.6 percent). Ontario outstrips all other provinces in service exports, benefiting from the growth in international exports of manufactured goods. Favourable exchange rates boosted the merchandise trade balance and helped generate strong growth in exports of travel and business-related services. As a result, the chronic services trade deficit narrowed in recent years.

### *Prince Edward Island*

Agriculture, fishing and tourism accounted for a major share of PEI's exports in the 1990s. Major exports were frozen vegetables, such as French fries and other processed potato products and fish products. A leading exporter of manufactured goods was the aerospace industry. The 1997 completion of the Confederation Bridge, connecting PEI with New Brunswick, provided a strong boost to tourism and exports to the United States. Imports typically consisted of machinery and equipment, and electrical and communications products. In most of the 1990s, PEI recorded a surplus in both merchandise and services trade with the rest of the world. The 13.6 percent growth in merchandise exports substantially exceeded the 8.3 percent growth in imports over the decade. In 1999, merchandise exports rose by 21.3 percent, with imports growing by only 9.1 percent.

### *Quebec*

Quebec's exports grew at a robust annual rate of 12.5 percent in the 1990s. With the province's highly industrialized economy, the export growth was led by manufactured goods, such as transportation equipment. The strong sales in this sector reflected the retooling at General Motor's plant in Sainte-Thérèse and the success of Bombardier, a manufacturer of commuter aircraft, railway cars, snowmobiles and sea-doo's. Other sectors that were major contributors to exports were aluminum, electronics and communications equipment, paper, lumber, and chemical products. However, increased global competition hurt exports of clothing and of knitted and other textile products. Merchandise imports also grew strongly, by 8.3 percent per year. The growth was led by imports of machinery and equipment, and automotive and aircraft parts, much of which were used in the manufacture of exports. Quebec's international trade was in surplus in most years in the 1990s, despite its persistent services trade deficit. The merchandise trade balance swung to a small deficit of \$0.35 billion in 1999; exports grew at a more modest rate of 7.8 percent, outstripped by the 11.8 percent growth in imports.



### *Saskatchewan*

Reflecting its rich natural resource endowment, Saskatchewan has a mix of exports based on a small number of primary goods and the associated downstream manufacturing. Exports of goods in the 1990s were up 9.5 percent annually on average, a rate similar to the growth in imports. Saskatchewan registered a persistent surplus in merchandise trade (\$4.5 billion in 1999). As the "breadbasket of the world," Saskatchewan led Canada in exports of wheat and other grains. The industrial mix underwent extensive diversification in the 1990s, and recent years saw more significant exports of cattle and calves, and oilseeds, such as canola. Saskatchewan is a leading exporter of potash, fertilizers, energy and uranium (Cameco accounts for one quarter of the global production of uranium). Over the last two years, Saskatchewan's exports were hurt by the downturn in the price of agricultural commodities and potash, and were also affected by the fluctuating price of crude petroleum. Saskatchewan's merchandise imports grew at a rate of almost 10 percent in the 1990s. Accounting for the bulk of imports were the sectors of machinery and equipment, chemical products, and other manufactured goods used as production inputs in agriculture and mining. Over the decade, services represented a growing proportion of total exports of goods and services, but in recent years the sector still accounted for only 6.2 percent of exports, far outstripped by merchandise exports. The trade account was in persistent surplus in the 1990s, despite a deficit in service transactions. The merchandise trade surplus rose somewhat to \$4.5 billion in 1999; the cause was a 9.4 percent drop in imports, with exports essentially unchanged.

### *Yukon*

Yukon's leading exports are metallic ores and concentrates, such as gold, lead and zinc. Tourism is also important in the territory's economy. Both sectors have been stimulated by the fall in value of the Canadian dollar against the U.S. dollar in recent years. Exports of metals were affected by the volatility in commodity prices in the world market. Yukon's imports were dominated by transportation equipment, and electrical and communications equipment. The territory had an overall trade surplus in goods and services in virtually every year in the 1990s.

### *Northwest Territories and Nunavut*

In the 1990s, the Northwest Territories and Nunavut were major exporters of zinc, lead, diamonds and petroleum products. Travel services were also an important export category. Imports were mainly of manufactured goods, such as machinery and equipment, transportation equipment, and electrical and communications products. In most years, the Northwest Territories and Nunavut registered a surplus in merchandise trade, which outweighed the deficit in the services account.



*Table 18: Provincial/Territorial Trade in Goods and Services with the World, 1992-1999*

Balance of payments basis — C\$ millions

|                         | 1992   | 1993   | 1994    | 1995    | 1996    | 1997    | 1998    | 1999<br>(est.) |
|-------------------------|--------|--------|---------|---------|---------|---------|---------|----------------|
| <b>Goods exports</b>    |        |        |         |         |         |         |         |                |
| ALBERTA                 | 18 734 | 20 948 | 24 023  | 27 431  | 32 667  | 33 208  | 30 977  | 34 514         |
| BC                      | 17 218 | 19 325 | 23 633  | 27 500  | 26 528  | 26 048  | 25 772  | 28 393         |
| MANITOBA                | 4 323  | 4 586  | 5 381   | 6 049   | 6 602   | 7 393   | 8 004   | 7 884          |
| NB                      | 3 421  | 3 613  | 3 942   | 4 860   | 5 298   | 5 368   | 5 066   | 5 631          |
| NFLD                    | 1 626  | 1 923  | 2 023   | 2 760   | 2 850   | 2 949   | 3 357   | 3 717          |
| NS                      | 2 717  | 2 817  | 3 003   | 3 346   | 3 548   | 4 124   | 4 661   | 5 387          |
| ONTARIO                 | 79 523 | 94 509 | 112 155 | 130 857 | 137 818 | 151 917 | 167 686 | 190 433        |
| PEI                     | 289    | 278    | 367     | 424     | 410     | 512     | 583     | 707            |
| QUEBEC                  | 29 700 | 35 538 | 45 388  | 52 284  | 52 870  | 57 772  | 63 123  | 68 030         |
| SASKATCHEWAN            | 5 846  | 6 334  | 8 138   | 9 253   | 10 715  | 11 364  | 11 022  | 11 035         |
| YUKON                   | 436    | 165    | 107     | 161     | 310     | 216     | 152     | 180            |
| NWT                     | 408    | 332    | 467     | 463     | 513     | 437     | 372     | 441            |
| <b>Goods imports</b>    |        |        |         |         |         |         |         |                |
| ALBERTA                 | 11 642 | 13 512 | 14 369  | 15 813  | 18 218  | 22 206  | 24 868  | 23 719         |
| BC                      | 16 518 | 18 329 | 22 708  | 23 546  | 23 222  | 26 594  | 27 575  | 26 253         |
| MANITOBA                | 3 912  | 4 451  | 5 717   | 6 723   | 6 413   | 7 577   | 8 171   | 7 367          |
| NB                      | 3 415  | 4 060  | 4 518   | 4 974   | 5 465   | 5 741   | 5 686   | 6 491          |
| NFLD                    | 1 158  | 1 389  | 1 649   | 2 114   | 2 063   | 2 505   | 2 542   | 2 814          |
| NS                      | 3 385  | 3 872  | 4 190   | 4 398   | 4 682   | 5 736   | 6 397   | 5 673          |
| ONTARIO                 | 78 762 | 90 402 | 109 484 | 122 242 | 123 203 | 144 334 | 158 108 | 171 685        |
| PEI                     | 255    | 289    | 339     | 371     | 335     | 367     | 408     | 445            |
| QUEBEC                  | 34 777 | 40 011 | 42 894  | 46 575  | 49 660  | 56 200  | 61 187  | 68 379         |
| SASKATCHEWAN            | 3 423  | 3 964  | 4 859   | 5 554   | 5 605   | 6 688   | 7 084   | 6 491          |
| YUKON                   | 119    | 161    | 120     | 154     | 148     | 151     | 151     | 204            |
| NWT                     | 184    | 187    | 176     | 225     | 293     | 336     | 409     | 551            |
| <b>Services exports</b> |        |        |         |         |         |         |         |                |
| ALBERTA                 | 1 900  | 2 027  | 2 280   | 2 578   | 2 835   | 2 927   | 3 619   |                |
| BC                      | 4 355  | 5 136  | 6 135   | 7 263   | 7 203   | 7 167   | 7 596   |                |
| MANITOBA                | 612    | 677    | 854     | 839     | 937     | 952     | 1 075   |                |
| NB                      | 302    | 398    | 488     | 525     | 604     | 625     | 661     |                |
| NFLD                    | 207    | 266    | 332     | 309     | 321     | 374     | 446     |                |
| NS                      | 484    | 611    | 685     | 754     | 800     | 959     | 1 071   |                |
| ONTARIO                 | 12 154 | 14 188 | 15 564  | 17 173  | 19 515  | 21 446  | 24 361  |                |
| PEI                     | 53     | 74     | 83      | 92      | 120     | 140     | 156     |                |
| QUEBEC                  | 4 840  | 5 383  | 6 435   | 6 904   | 7 827   | 8 452   | 9 336   |                |
| SASKATCHEWAN            | 322    | 406    | 492     | 486     | 554     | 561     | 696     |                |
| YUKON                   | 79     | 72     | 75      | 79      | 75      | 82      | 95      |                |
| NWT                     | 33     | 42     | 58      | 70      | 44      | 40      | 67      |                |





|                         | 1992   | 1993   | 1994   | 1995   | 1996   | 1997   | 1998   | 1999 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|------|
| <b>Services imports</b> |        |        |        |        |        |        |        |      |
| ALBERTA                 | 2 691  | 3 079  | 3 574  | 3 708  | 4 066  | 4 502  | 4 445  |      |
| BC                      | 3 996  | 4 434  | 5 139  | 5 240  | 5 819  | 5 933  | 6 106  |      |
| MANITOBA                | 1 011  | 1 144  | 1 178  | 1 281  | 1 394  | 1 510  | 1 574  |      |
| NB                      | 485    | 567    | 652    | 640    | 653    | 631    | 665    |      |
| NFLD                    | 252    | 304    | 366    | 391    | 405    | 439    | 468    |      |
| NS                      | 548    | 634    | 741    | 811    | 789    | 866    | 1 135  |      |
| ONTARIO                 | 17 475 | 19 833 | 20 646 | 21 678 | 24 507 | 26 475 | 28 565 |      |
| PEI                     | 46     | 54     | 66     | 67     | 65     | 61     | 61     |      |
| QUEBEC                  | 6 547  | 7 516  | 8 156  | 8 564  | 8 877  | 9 290  | 10 054 |      |
| SASKATCHEWAN            | 649    | 767    | 872    | 909    | 969    | 1 119  | 1 036  |      |
| YUKON                   | 30     | 77     | 42     | 45     | 30     | 30     | 29     |      |
| NWT                     | 41     | 59     | 113    | 151    | 86     | 106    | 126    |      |

Source: Statistics Canada, *Provincial Economic Accounts*, Catalogue 13-213.

