

Trade and Investment Highlights

Goods Exports and Imports Decline

Canadian exports expanded by a modest 0.3% in the third quarter (Figure 1). A 1.3% slide in merchandise exports was more than offset by a 12.9% increase in services exports.

Imports of goods and services fell by 7.3%, reflecting a 9.4% decline in commodity imports, combined with a 4.3% increase in services imports.

Increased forestry and energy prices supported expanded exports in these sectors in the third quarter (Figure 2). Exports of agricultural products also increased, but from very depressed levels in the previous quarter, when exports had been severely hampered by the discovery of mad cow disease in a single cow in Alberta. Elsewhere, declines in Canada's three leading export sectors limited quarter-over-quarter export growth. Exports of machinery and equipment were down \$2.1 billion or 9.1%; those of automotive products were down \$1.3 billion or 5.8%; and industrial goods exports were down \$0.3 billion or 1.9%.

Merchandise imports declined by \$8.4 billion or 9.4% in the third quarter. Substantive declines in imports of automotive products (down \$6.4 billion or 29.1%) and industrial goods (down \$2.0 billion or 11.8%) together with slowing imports of agricultural products (down \$0.8 billion or 13.5%) and consumer goods (down \$0.7 billion or 5.6%) were only partially offset by expanded imports of energy (up \$0.8 billion or 17.8%) and machinery and equipment (up \$0.3 billion or 1.3%).

Merchandise exports to the U.S. fell modestly, by 1.2% or \$1.0 billion. All major markets, with the exception of Other (Non-OECD) Countries, also experienced declines in goods exports.

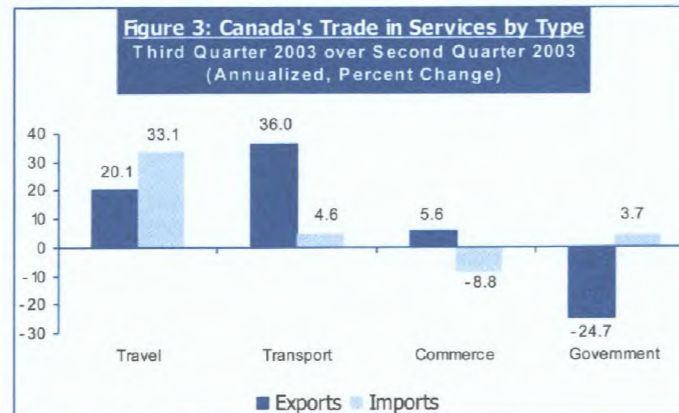
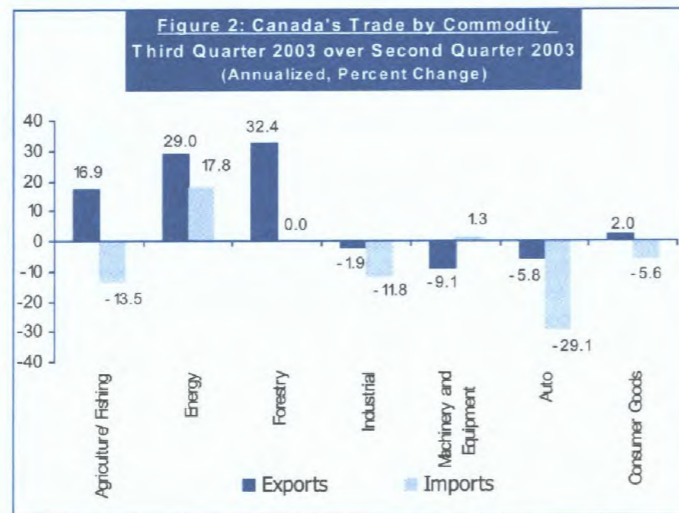
Merchandise imports from the U.S. fell substantially, down 9.6% or \$6.0 billion on an annualized basis. Commodity imports from all other major markets—with the exception of the European Union (EU)—also declined.

With goods imports declining more than goods exports, the merchandise trade surplus expanded \$7.0 billion in the quarter, to \$61.9 billion. A \$5.0 billion increase in the merchandise trade surplus with the U.S., an improvement of \$1.6 billion in the surplus with Japan, and a \$3.2 billion reduction in the trade deficit with Other Countries was only partially offset by the \$2.5 billion enlargement of the trade deficit with the EU.

Services Exports and Imports Expand

Services exports increased by 12.9% in the third quarter (Figure 3). All subsectors, with the exception of government services, expanded. Services exports to the U.S. dominated the increase, in particular increased travel to Canada by Americans following this sector's recovery from the SARS outbreak. Exports of transport services also grew—by 36.0% or \$732 million. Commercial services, up 5.6% or \$416 million, expanded to all major markets.

Services imports advanced \$708 million or 4.3%. Increased travel by Canadians in the quarter pushed travel services imports up \$1.3 billion or 33.1%. Transport services imports also increased slightly, but imports of commercial services declined by \$776 million or 8.8%. Government services imports remained stable. Overall, the services trade deficit narrowed to \$10.9 billion on an annualized basis from \$11.9 billion in the previous quarter.



Source for figures 1-3: Statistics Canada

Outward Investment Exceeds Inward Flows

Flows of Canadian direct investment abroad (CDIA) were \$4.9 billion in the third quarter of 2003—down from \$13.6 billion in the third quarter of 2002. Declines were particularly pronounced in the finance & insurance and machinery & transport sectors. Regionally, the declines were concentrated in the EU (down \$5.6 billion), Other OECD Countries (down \$2.7 billion) and Non-OECD Countries (down \$1.9 billion). On the other hand, flows of CDIA into the U.S. were higher than during

the same quarter last year, when Canada registered a net repatriation of earlier investment into the United States.

Foreign direct investment (FDI) flows into Canada amounted to \$2.0 billion in the third quarter of 2003—down from \$2.6 billion in the same quarter a year earlier. Most of the decrease in FDI flows occurred in the finance & insurance (down \$1.9 billion) and energy (down \$0.3 billion) sectors, while FDI to other industries increased by \$1.7 billion. The reductions stemmed primarily from declines in FDI from the EU (down \$216 million), from Other OECD Countries (down \$138 million), and from Non-OECD

Countries (down \$139 million). Overall, then, outward flows of investment exceeded inward flows by \$2.9 billion, compared with a net inflow of \$11.0 billion in the same quarter the previous year.

Canada's Official International Reserves Remain Unchanged

Official reserves of assets remained unchanged in the third quarter of 2003, compared with a \$1.9 billion reduction during the same quarter in 2002.

China

The composition of the Chinese economy and the role of trade

From 1985 to 2002, China's economy boomed (Table 1). As a consequence, nominal GDP per capita increased from 855 yuan in 1985 to 7,972 yuan in 2002.¹ The contribution of agriculture to GDP declined from 28.4% in 1985 to 14.5% in 2002, largely due to the growing significance of the industrial sector (up 8.6 percentage points to 51.7%) and services (up 5.2 points to almost 34%).

Exports and imports have played an increasingly important role in China's economy. In 1985, China's imports of goods and services, as a percentage of GDP, exceeded its exports by 4.1%. However, by 1990 the country had established a positive external trade balance. In 2002, net exports of goods and services accounted for 2.5% of Chinese GDP.

A major player

The use of net export figures hides the fact that both exports and imports have experienced exceptionally high levels of growth over 1985-2002. During this period, China established itself as a major player in international trade (Table 2). In 1985, China accounted for 1.4% of world goods exports and 2.1% of world goods imports and was running a merchandise trade deficit of US\$15.2 billion. Over the next five years, goods exports increased at an annual average rate of 17.8%, while goods imports expanded by an average of 4.8%, turning the merchandise trade balance into a surplus position. The strong growth in goods exports and imports continued through the 1990s. Nowadays, China accounts for 5.1% of world goods exports and 4.4% of goods

Table 1: China's economy

	1985	1990	1995	2000	2001	2002
GDP (bn yuan at current market prices)	896.4	1,854.8	5,847.8	8,944.2	9,593.3	10,239.8
Annual GDP growth, current prices	n.a.	9.7%	25.1%	9.0%	7.3%	6.7%
<i>Per capita GDP, at current yuan prices</i>	855	1,634	4,854	7,084	7,543	7,972
<i>Structure of Output % of GDP at current prices</i>						
Agriculture	28.4	27.0	20.5	16.4	15.2	14.5
Industry	43.1	41.6	48.8	50.2	51.1	51.7
Services	28.5	31.3	30.7	33.4	33.6	33.7
<i>Structure of Demand % of GDP at current prices</i>						
Private consumption	51.2	49.1	46.1	48.0	47.9	47.1
Government consumption	13.2	12.1	11.4	13.1	13.6	13.5
Gross domestic capital formation	37.8	34.7	40.8	36.3	39.0	41.0
Net exports of goods and services	-4.1	2.7	1.7	2.5	2.3	2.5

Source: Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries

Table 2: Merchandise trade, mn U.S. dollars

	1985	1990	1995	2000	2001*	2002*
Goods exports, fob	27,350	62,091	148,780	249,203	266,098	325,565
average annual growth, %	n.a.	17.8%	19.1%	10.9%	6.8%	22.3%
share of world exports, %	1.4%	1.8%	2.9%	3.9%	4.3%	5.1%
Imports, cif	42,253	53,345	132,084	225,094	243,553	295,203
average annual growth, %	n.a.	4.8%	19.9%	11.3%	8.2%	21.2%
share of world imports, %	2.1%	1.5%	2.5%	3.4%	3.8%	4.4%
Trade balance (goods)**	-15,151	8,950	16,792	24,099	23,131	30,271
<i>Commercial Services Trade, mn U.S. dollars</i>						
Exports	2,925	5,748	18,430	30,146	32,901	37,315
average annual growth, %	n.a.	14.5%	26.2%	10.3%	9.1%	13.4%
share of world exports, %	0.8%	0.7%	1.5%	2.0%	2.2%	2.4%
Imports	2,261	4,113	24,635	35,858	39,032	44,204
average annual growth, %	n.a.	12.7%	43.0%	7.8%	8.9%	13.2%
share of world imports, %	0.6%	0.5%	2.1%	2.5%	2.7%	2.9%
Balance (commercial services)	664	1,635	-6,205	-5,712	-6,131	-6,889

* Annual growth rates for these years

** With adjustment for cif/fob evaluations, based on IMF data

Sources: World Trade Organization (WTO) Trade database and International Monetary Fund (IMF) Direction of Trade statistics

1 Reliable time series of real GDP (i.e. GDP corrected for price increases) are hard to establish for China due to weaknesses in the country's national accounts system.