



THE EUROPEAN UNION ECONOMY

Since its modest beginnings in 1957, the European Economic Community has grown into a highly integrated and prosperous economic superpower - the European Union (EU). Today, the EU embraces 15 member states with almost 370 million consumers and a combined Gross Domestic Product (GDP) of US\$ 7.3 trillion.

The EU is the most important trader in the world, followed by the United States and Japan. Over 15 per cent of world exports (extra EU exports) originate in the EU and over 16 per cent of world imports (extra EU imports) are absorbed by the member states. With the prospect of further enlargement, the Union will enhance its role as a leading player in world trade and investment.

The majority of EU trade is with the surrounding market, mainly with the members of the European Free Trade Association (EFTA).¹ In 1993, EU imports from the EFTA countries amounted to over US\$ 130 billion and EU exports to EFTA totalled over US\$ 120 billion.² Nevertheless, the Union is a leading economic partner for many non-European countries as well.

The United States, Japan and other world traders have realized the influence of this superpower on their own prosperity and have made the EU a leading destination for exports and source of imports. In 1993, over US\$ 100 billion and US\$ 60 billion of European imports originated in the United States and Japan respectively. The United States is the second most important destination for EU exports (US\$ 100 billion), trailed by Eastern Europe and Japan with US\$ 39 billion and US\$ 28 billion respectively.

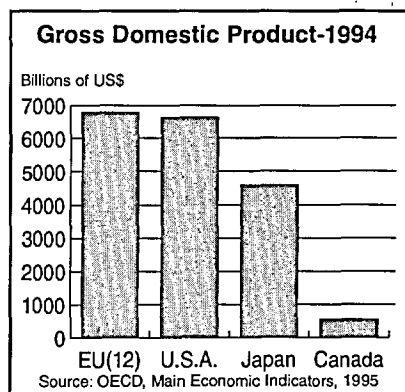
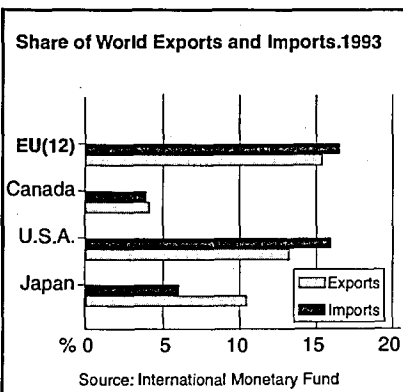
The EU remains the second most important source of foreign direct investment (FDI) in the world. While the share of EU direct investment in the U.S.A. has decreased over the last few years, investment links with EFTA countries and the EU's close neighbours to the East intensified. Canada's share of European FDI has continuously increased over the last few years, amounting to \$35 billion in 1994. The member states also offer a very open climate for foreign direct investment, attracting around 30 per cent of global investment in 1993 (excluding intra-Community FDI flows).³ As in the past, the United States remains the main source of this investment in the EU.

The European Union has officially established closer links with its neighbouring markets in order to foster existing trade and investment relations.

The European Economic Area (EEA) embraces 18 countries with a population of 374 million people accounting for 40 per cent of world trade. The EEA extends the four principles of EC 1992 -- freedom of movement of goods, services, capital and people -- to EFTA countries (except Switzerland). The EEA is regarded as a stepping stone to full EU membership.

The Europe Agreements, signed with the Visegrad countries as well as Romania, Bulgaria, Latvia, Estonia and Lithuania, denote an important stage in the development of greater cooperation between East and West. The Agreements provide the framework for the establishment of an economic, financial and free trade area over the next decade. They are also

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