

CANADIAN INTERESTS

i) Trade and Economic

The U.S. economy, with a projected 1993 gross domestic product (GDP) of US\$6.2 trillion, remains subdued. Economic growth is expected to accelerate in the second half of 1993, with real GDP growth of 2.7 percent projected for 1993, and 2.6 percent in 1994.

Protectionist sentiment is strong. The U.S. merchandise trade deficit is expanding, and is projected to be over US\$110 billion in 1993. However, the U.S. runs an important surplus in trade in services, estimated at US\$32.5 billion in 1991 and US\$40.8 billion in 1992. U.S. anger is focused on Japan and the European Community (EC) (seen as the spoiler in the Uruguay Round), but unchecked protectionism would have consequences for Canadian exports.

Congress' approach to both the NAFTA and the Uruguay Round will be decisive in its approach to trade issues. Canada has a strong interest in encouraging defenders of open, rules-based trade as a means to promoting Canadian and, indeed, global economic renewal.

Canada-U.S. economic relations amounted to over \$287 billion in 1992, of which merchandise trade accounted for \$225 billion; services trade for \$40 billion; and investment income and transfers for the remainder. Although important trade disputes do arise, they affect only a small proportion (under 5 percent) of total trade. Nonetheless, the management of such disputes requires high-level political involvement on both sides.

In 1992, merchandise exports to the U.S. amounted to \$121.2 billion, representing 18.3 percent of all U.S. imports, compared to Japan with 18.1 percent; imports were \$104.4 billion, representing 20.2 percent of all U.S. exports, well ahead of Japan, their next largest export market, which takes 10.7 percent. Record-setting monthly levels of Canadian exports to the U.S. have driven real growth in the Canadian economy in 1993. For the first seven months of 1993, merchandise exports to the U.S. were 21.5 percent above comparable 1992 levels, while merchandise imports from the U.S. grew by 17.2 percent.

Canada's current account balance with the U.S. traditionally is in deficit. Although Canada had a merchandise trade surplus of \$16.8 billion with the U.S. in 1992, the non-merchandise account had a deficit of \$19.6 billion, for a net current account deficit of \$2.8 billion.