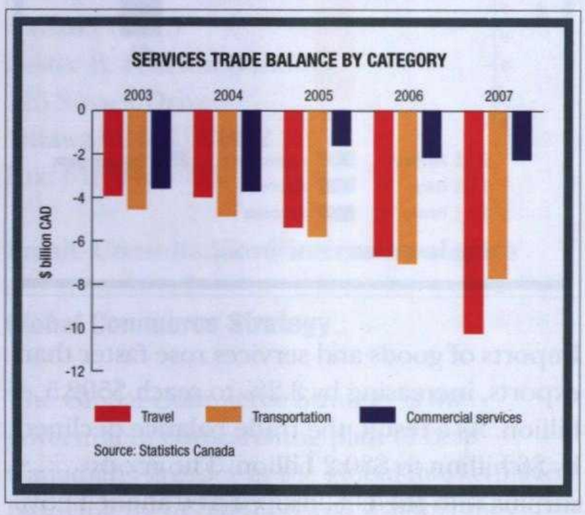
Chapter 1

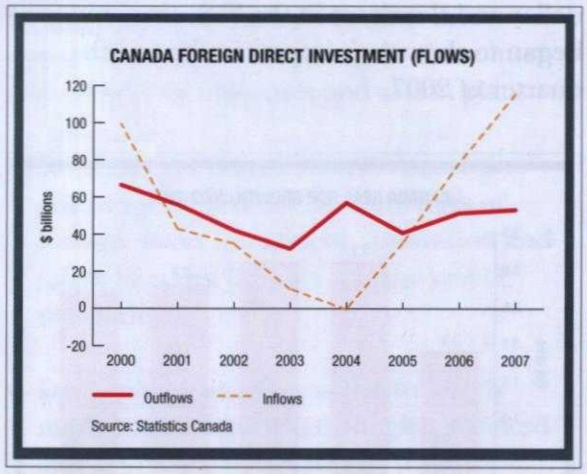
Introduction

In 2007, the United Kingdom was the second most important single country destination for Canadian goods exports, taking 3.2%.

Although services exports increased slightly to $67.5 billion in 2007, imports rose to a record $86.9 billion, bringing the services deficit to a new high of $19.5 billion, up from $15.2 billion in 2006. The bulk of the deficit was due to travel, which has been trending up sharply since 2002 as Canadians take advantage of the strong Canadian dollar to travel to the United States. The deficit in transportation also expanded, whereas that in commercial services remained steady.



The flow of Canadian direct investment abroad reached $53.1 billion in 2007, the fourth highest level historically. Most of this investment was concentrated in the finance and insurance industry, followed by energy and metallic minerals, and was directed to the United States and the European Union.



Capital flows into the Canadian economy from foreign direct investors reached an unprecedented level of $115.4 billion in 2007. Cross-border mergers and acquisitions were the driving force behind foreign direct investment in Canada in 2007, reflecting consolidation of some sectors on a worldwide scale. Reinvested earnings were equivalent to about 15% of all net flows. Foreign direct investments in Canada were mostly directed to the energy and metallic minerals industries, finance and insurance, and came mainly from the European Union and the United States.