

significantly, driven by the U.S. and by major emerging economies, while uranium exports fell sharply to Europe.

In advanced manufacturing, telephone equipment and parts experienced a sharp decline in exports and strong growth in imports in 2008. Both exports and imports of aircraft fell in 2008 with declining demand in both the United States and Canada. However, gas turbines, largely used in the aircraft sector, recorded strong rates of expansion for both exports and imports, mainly on advances in trade with the United States.

Foreign direct investment (FDI) in Canada slowed dramatically in 2008, rising just 2.8 percent versus double-digit rates the previous two years. The new investment came mostly from non-U.S. sources, as U.S. investment in Canada was flat. Total FDI in Canada rose to \$504.9 billion at the end of 2008, up from \$491.3 billion in 2007. This marked the first time that the stock of FDI into Canada surpassed the half a trillion dollar mark.

At the same time, Canadian direct investment abroad (CDIA) surged 23.6 percent (\$121.8 billion) to \$637.3 billion at the end of 2008. Some 68 percent of the increase was due to currency effects as the Canadian dollar depreciated against other currencies. Nonetheless, without the exchange rate changes, the stock of CDIA grew by \$39 billion over 2008. Overall, the difference between outward and inward investment, which is Canada's net direct investment position, widened dramatically to \$132.4 billion in 2008, up from \$24.8 billion in 2007. 2008 also marked the first year that Canada became a net exporter of capital to the United States, as Canada's direct investment position in the United States exceeded U.S. direct investment in Canada.

With respect to the longer-term trends, as discussed in the information boxes in this publication, Canadian trade has been diversifying. Growth in Canadian trade with non-U.S. markets, for both exports and imports, has surpassed that of trade with the United States in every year since 2000, coinciding with an increase in the number of exporters to

Europe and the Asia-Pacific region and an increasing share of sales by Canadian affiliates in non-U.S. locations, particularly in non-OECD markets. At the same time, fewer firms are exporting to the United States, and Canada-U.S. trade has become less reliant on intra-firm relationships, as the share of Canada-U.S. intra-firm trade has been on the decline over much of the present decade.

Special Feature: Canadian Trade Opportunities in Emerging Markets

Advances in information and communications technologies are enabling increased global economic integration. This creates opportunities for emerging and developed countries to generate long-term growth, which will return in force when the current economic crisis abates. The potential for growth in these countries driven by technology-based productivity improvements has barely been tapped into so far. Resulting enhancements in output and efficiency and the access to relatively open global markets will, under conditions of good economic governance, ensure consistent per-capita income growth and enable convergence between rich and poor nations, reducing imbalances in international income distribution.

This process will be accompanied by tremendous growth in the importance of the emerging world. One-tenth of a percent of the import market of the BRIC countries alone is estimated to be worth \$29 billion in 2038, so Canada's share of these markets matters. Econometric modelling of Canadian merchandise exports to the emerging world shows that Canada is exporting some 42 percent more than expected to an average emerging or developing economy, after taking into account trade-influencing factors such as GDP and distance from Canada. Exports are particularly high to East Asia (China, Malaysia, Indonesia), but are lower than predicted to some major destinations such as Brazil and India.

Further insight into Canadian export performance in emerging markets is gained through the framework of comparative advantage analysis in 15 key emerging markets across the globe. Our global