

GLOBAL CONTEXT

The global economy slowed significantly throughout 2001, but proved to be resilient to a barrage of shocks, including the bursting of the technology bubble, the 9/11 terrorist attacks and a growing number of high-profile U.S. corporate scandals.

Far from succumbing to negative global forces, Canada posted a surprisingly strong economic performance in 2001 with GDP growth of 1.5 percent. The year marked the 10th consecutive year of economic growth in Canada – the longest and most stable expansion of the post-war era – and saw Canada outperform the U.S. during a global economic downturn for the first time in almost 30 years.

Following real growth of 2.9 percent in the fourth quarter of 2001, our economy grew at a robust annual rate of six percent in the first quarter of 2002. During the first five months of 2002, Canada also posted the strongest employment gains in almost a decade. Canada's current account balance remained strong, helping reduce Canada's foreign indebtedness to the lowest level in 50 years.

By mid-2002, the Conference Board of Canada reported that consumer confidence had reached a 12-year high and that business confidence had climbed sharply. Around the same time, forecasts by the IMF and the OECD² predicted that Canada would lead

the G-7 countries in economic growth in 2002 and 2003. Well-timed tax cuts, lower interest rates and consumer confidence are the widely cited reasons for Canada's stellar performance.

Canada's exports of goods and services also proved to be resilient in 2001, declining only 2.1 percent on the heels of an exceptional 14.6 percent increase in 2000. Total trade in 2001 surpassed \$880 billion, nearly \$468 billion in exports and \$413 billion in imports. Canada attracted \$42.5 billion of new foreign direct investment in 2001, a record high that brought the stock of foreign direct investment in Canadian wealth-creating enterprises to \$320.9 billion. Canadians also invested a near record high in new direct investment abroad of \$54.9 billion, reflecting the dynamism and optimism of Canadian investors in a difficult world economic environment.

At the close of 2001-02, most experts agreed that continuing risks to global economic performance included the strength of the U.S. economy, performance of the still-floundering global equity markets and political uncertainty in the Middle East and South Asia. In the midst of projected world economic growth of 2.6 percent for 2002 and 3.1 percent for 2003, the Canadian economy is expected to grow 3 percent in 2002 and 3.2 percent in 2003.

More detailed economic information is available in the Department of Foreign Affairs and International Trade's *State of Trade 2002*, a report card on the major aspects of the Canadian economy, as well as in Export Development Canada's *Global Export Forecast*, a semi-annual report examining Canada's export potential, trading partners and opportunities in each major sector. The *State of Trade* can be found at www.dfait-maeci.gc.ca, while the *Global Export Forecast* can be found at www.edc.ca.

² International Monetary Fund and Organisation for Economic Cooperation and Development