

the United States remained close to their 1985 level, while imports from the US grew moderately. The Canadian bilateral surplus with the US on merchandise trade was down by 17.7 per cent. Nevertheless, the continued growth of the United States market remained a central factor in Canadian trade performance.

Non-merchandise items played a balancing role in the Canada-US economic relationship; Canada recorded a bilateral deficit with the United States of \$2.4 billion on traded services in 1986 and a \$10.5 billion bilateral deficit on investment income. Canada's deficit in traded services with the rest of the world was \$1.1 billion, and on investment income was \$6.3 billion. These deficits on non-merchandise items offset the Canadian surplus on merchandise trade, resulting in an over-all deficit of \$8.8 billion in Canada's current account balance (a measure of the balance of all non-capital transactions with other countries).

Merchandise imports increased strongly both from the Asia-Pacific region (23 per cent) and from Europe (18 per cent), while Canadian merchandise exports to Europe grew significantly faster than those to the Asia-Pacific region (12.7 per cent as against 0.7 per cent). The Asia-Pacific remains a larger market (buying \$11.1 billion of Canadian exports as opposed to \$10.8 billion for Europe), but with a somewhat higher composition of unfinished raw materials. Japan maintained the position it had held since 1973 as the second largest country market for Canadian goods, taking \$5.9 billion of exports and supplying \$7.6 billion of imports. Our exports to the newly-industrializing countries of the Asia-Pacific (South Korea, Taiwan, Hong Kong and Singapore) grew by 21.9 per cent to reach \$2.1 billion, as against imports from them of \$4.7 billion.

With the member states of the European Community, as well as with Japan, Canada experienced an exchange rate depreciation during 1986. Canadian exports to the EC benefited from this and also from the improved growth in Europe during the year. While these factors were only partially reflected in Canada's 1986 trade results, the trend was nevertheless encouraging.

Demand from Africa and the Middle East was heavily affected by the decline in oil prices, general economic slowdown and accumulating problems in servicing a large volume of external debt; Canadian exports to the area dropped by \$339 million. Despite a heavy external debt problem, Canada's exports to Latin America and the Caribbean rose by \$424 million, reducing our trade deficit with that region.

Canada's commodity trade patterns

The table below lists destinations of Canada's 15 leading export commodities, representing over 64 per cent of total export earnings. Fully 75 per cent of these were exports of manufactures, illustrating the important role of the manufacturing sector in Canada's export trade. This table also shows Canada's relative dependence on the United States market for its 15 leading commodity exports, particularly for manufactures. Exports of passenger automobiles and parts edged up in 1986 reflecting, in part, higher consumer spending on durable goods in the United States. Export receipts from crude petroleum and natural gas fell as a result of plummeting prices for these commodities in the international market last year. Despite the US tariff on shakes and shingles, and a 15 per cent export tax on softwood lumber, Canada's exports of lumber and other wood products rose in 1986 reflecting, *inter alia*, the US housing boom. The value of Canadian wheat exports fell in 1986, reflecting lower international demand and the severe drop in prices resulting from the sales subsidy policies of major producers.

Fifteen leading commodity imports made up over 66 per cent of Canada's total imports in 1986 (see table), of which over 90 per cent were manufactures. These statistics illustrate how Canada's import sources are more diverse than are its export destinations, rendering Canada correspondingly more vulnerable to economic developments in the United States. With the exception of crude petroleum, all leading categories of imports experienced increases last year, reflecting a Canadian growth rate higher than the OECD average, together with valuation effects from the depreciation of the Canadian dollar vis-à-vis the European currencies and the Japanese yen, and currency changes advantageous to the Asian newly-industrializing countries.

Among the main categories of traded goods, certain items stand out in terms of distribution patterns. Thus, automotive products and parts are concentrated along lines that reflect the nature of that industry and of the Canada-US Auto Pact. The diverse nature of markets for Canadian wheat, and of sources of imports of apparel and textiles, are also notable. The growth of trade in both directions relating to machinery and equipment was indicative of the extent to which during 1986 Canadian trade benefited from the expansion of investment, both in Canada and in its main trading partners.