

2. RECENT TRENDS IN TRADE FLOWS AND INVESTMENT BETWEEN CANADA AND EUROPE

2.1 Trade

In 1988, Canadian merchandise exports to the twelve Member States of the EC amounted to \$10.8 billion, or 8 per cent of total exports; imports from the EC amounted to \$15.8 billion, or 12 per cent of total imports. Comparable figures for Japan were \$8.7 billion of exports and \$9.3 billion of imports. Exports to the U.S., Canada's largest trading partner, amounted to \$100 237 billion in 1988; imports from the U.S. were \$85 219 billion.

Exports to the United Kingdom account for about one-third of Canada's EC export total. In 1988, exports of more than \$1 billion went to Belgium, France, West Germany, Italy and the Netherlands. Imports are more concentrated, with the United Kingdom, West Germany, France and the Netherlands being the dominant sources. Imports from West Germany have grown rapidly in recent years, and now approximate those from the United Kingdom.

The commodity composition of trade with the EC is a classic case of Canada supplying primary commodities in exchange for highly manufactured products. Over the past decade, the EC has been a consistently important market for fish and shellfish products, metal ores, softwood lumber, and wood pulp and paper products. Exports of semi-manufactured and highly manufactured goods are typically small; exports of highly manufactured goods (Section V in the trade nomenclature) total only about \$2 billion.

In contrast, Canadian imports from the EC are dominated by manufactured goods. Canada is a notable market for EC exports of primary and semi-fabricated commodities such as beverages (wine), crude petroleum, fabricated textiles, organic chemicals,

and rolling mill products. Highly manufactured goods dominate imports, however, accounting for approximately \$8 billion, more than one-half of the total. Imports of industrial machinery and transportation equipment are especially significant.

The other notable trend in trade relations with the EC is the degree to which the Canadian trade balance has deteriorated over the past decade. In the final years of the 1970s, the accounts were either in rough balance or recorded Canadian trade surpluses. In 1988, the balance favoured the Community by almost \$5 billion. This deterioration, from a Canadian perspective, is traceable to a number of factors. In part, it reflected the relatively poor economic performance of the country's principal Community trading partner, the United Kingdom: exports to the U.K. in 1986 were approximately the same, in absolute terms, as in 1979. Another factor was the considerable over-valuation of American and Canadian dollars from the late 1970s through to 1986. Since currency realignment in 1986, exports to Europe have grown relatively quickly, increasing from a low of 6.7 per cent of Canada's total in 1986 to almost 8 per cent in 1988. However, the trade balance was similar in both years, reflecting the high import content (i.e. increased machinery and equipment imports resulting from surging investment in Canada.)

2.2 Investment

International capital mobility can reflect the competitive success of an economy, as well as influence the development of that success. Canadian direct investments in the EC almost doubled in the early to mid-1980s when the Canadian current account balance recorded surpluses -- rare events in this century. Conversely, direct investment in Canada by EC nationals has almost doubled since 1985, reflecting the increased attraction of Canada and the