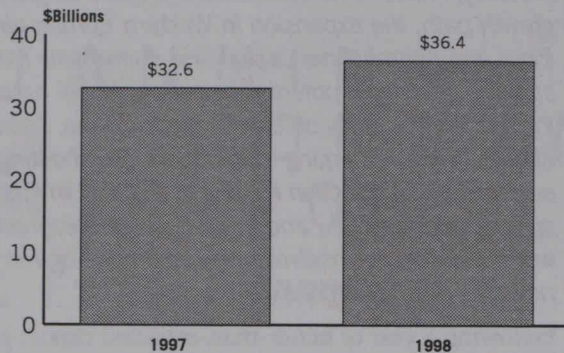


## Canada's 1998 goods trade grew because of its success in the U.S. market

Trade Balance with the U.S. increased



...as export growth to the U.S. outpaced import growth from the U.S.



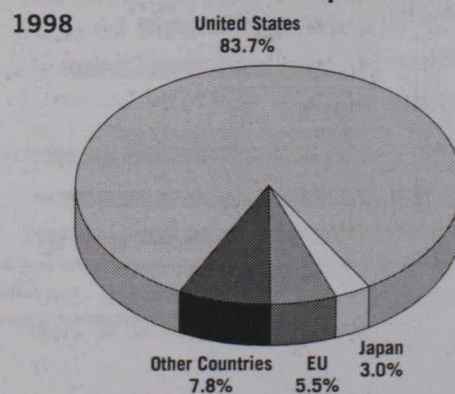
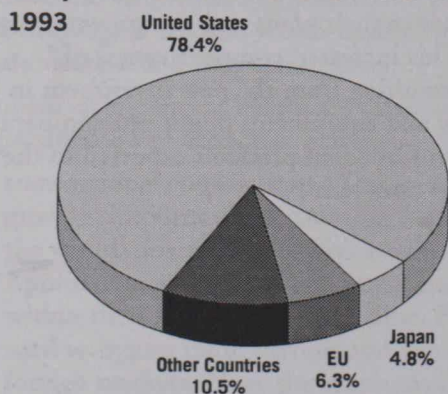
Source: DFAIT/Trade and Economic Analysis Division (EET)

Exports to **Western Europe** are expected to grow by nearly 4 percent in 1999. For the past several years, much of continental Europe has been caught in a "jobless recovery" characterized by major restructuring and cost-cutting in the private and public sectors; a strengthening corporate sector alongside a weakening household sector; and strong export demand alongside weak domestic demand. This has led to a significant improvement in credit quality conditions. Business failures have declined, though ongoing corporate restructuring in Germany and France is placing considerable pressure on SMEs serving larger corporations. While there is growing evidence that domestic demand is picking up steam, a strong performance is considered unlikely. Rather, a long-running expansion of modest growth is anticipated over most of the planning period.

The recession in **Japan** means Canadian exports to that market will likely remain weak in 1999, with decline forecast at near 1 percent. Japan is viewed as our weakest market over the planning period.

Two distinct classes have emerged in Japan's corporate sector: a core of highly competitive multinationals whose sales are primarily to the export market, alongside a much larger number of highly protected and uncompetitive industries serving the domestic economy. It is the latter group of companies that is experiencing a high degree of financial distress. This is the result of three forces: the poor state of the Japanese economy, which now borders on deflationary; Japan's credit crunch, which has arisen as a by-product of the banking crisis and the authorities' current attempts to correct it; and the severe repercussions on corporate Japan arising from the East Asian crisis. Adding to the latter woes, the Japanese authorities are expected to pursue measures to deregulate and liberalize the economy, which will expose protected industries to higher levels of competition. As a result, credit quality conditions in Japan are expected to remain poor through much of the planning period.

## The importance of the U.S. has increased, while that of the EU and Japan has declined



Source: DFAIT/Trade and Economic Analysis Division (EET)