

# EUROPE<sup>1</sup>

## Western Europe

### Introduction

With 360 million consumers, Western Europe is the world's leading importer of goods and services, accounting for some 46 percent of world merchandise imports and 52 percent of world services imports. With the United States, it is one of the largest, richest and most sophisticated markets in the world. Western Europe is the world's leading investor, a pacesetter in scientific research and development (R&D), and Canada's most important commercial partner after the United States. Canadian exports to this region are characterized by a large percentage of high value-added goods and a large volume of business services. Seven out of Canada's top twelve merchandise export markets are within Western Europe. A market with significant potential for growth, it is also an essential market for Canadian small and medium-sized enterprises (SMEs).

In 1994, the value of Canada's merchandise exports to Western Europe totalled \$13.9 billion. While there has been a decline since 1988 in exports of certain categories of food, inedible raw materials, and fabricated products, there has been a steady increase in exports of high value-added manufactured or end products.

Western Europe is also Canada's second-largest market for business services after the United States. Between 1988 and 1992, exports of such services grew at an average annual rate of 4.5 percent. Over half of Canada's 13 major services export markets are within Western Europe.

Western Europe is Canada's second-largest foreign direct investor and the second-largest destination for Canadian investment abroad. Canadian direct investment in Western Europe grew by 333 percent (\$21 billion) between 1984 and 1994 to more than \$27 billion, while European direct investment in Canada increased by 134 percent (\$22 billion) to \$39 billion during

the same period. Of Canada's ten largest foreign direct investors, six are from Western Europe.

Western Europe is a world leader in science and technology, and a key source for technology partnerships. Europe collectively accounts for about one third of the world's science and technology R&D expenditures. More than 300 co-operative scientific projects are under way between Canadian and European public-funded laboratories. Furthermore, Canada and the European Union (EU) recently signed an Agreement on Co-operation in Science and Technology, which will allow Canadian companies, universities and research institutes to join with European partners to submit proposals for research and technological development (RTD) projects under the European Commission's 1994 to 1998 Fourth Framework RTD Program.

With an average growth of 3.1 percent in tourist traffic over the last five years, more than 2 million Europeans made overnight visits to Canada and spent an estimated \$1.8 billion, representing about 20 percent of Canada's international tourism receipts. Canada's primary markets (United Kingdom, France and Germany) accounted for 70 percent of overnight visitors, while its secondary markets (Switzerland, Italy and the Netherlands) accounted for another 15 percent.

### Business Environment

Western Europe, like North America, is gradually coming out of a recession. Four of the G-7 countries (United Kingdom, Germany, France and Italy) are located in Western Europe. According to the Organization for Economic Co-operation and Development's (OECD) gross domestic product (GDP) projections, all four economies are expected to grow between 2 percent and 3 percent in 1996. Although this growth may be smaller than that of some other markets, it represents significant additional potential for Canadian exporters because of the sheer size of these economies. For example, a 2.5-percent increase applied to the German GDP of \$2.5 trillion represents \$62.5 billion.

Western Europe's stable and democratic governments, market economies, high per-capita incomes, and rules-based trading systems will

<sup>1</sup> As of September 1, 1995, the Department of Foreign Affairs and International Trade's (DFAIT) Europe Branch was restructured to eliminate the imaginary lines between Western, Central and Eastern Europe. This document was prepared prior to the reorganization and reflects the traditional distinction between the three regions. However, the European Markets section distinguishes between the new divisions of Western, Central, Northern, Southern and Eastern Europe. Next year's strategy will reflect the changes resulting from the departmental reorganization.