(or $2.7 billion), and Industrial and Agricultural goods exports were both down 5.2% (or $3.6 billion and $1.6 billion, respectively). Finally, Consumer goods exports declined 3.1% (or $0.5 billion). Partially offsetting the losses was a surge in Energy exports, which increased by 22.8%, or $11.3 billion, largely due to increased energy prices.

Similar to the case for exports, goods imports also declined in all sectors, except for Energy. Imports of Machinery declined by 7.2% (or $7.7 billion), Automotives imports were down 6.3% (or $5.1 billion), Industrial goods were off by 5.5% (or $3.8 billion), Forestry imports were down 3.7% (or $0.1 billion), while Agricultural goods imports fell by 1.2% (or $0.3 billion), and Consumer goods imports were down 0.5% (or $0.2 billion).

With these developments, the merchandise trade balance for Energy improved by a healthy $8.3 billion in 2003 to more than offset the key declining merchandise trade balances for Automotives (down $4.0 billion) and Forestry (down $2.6 billion).

Services Trade

Services exports also experienced an overall decline in 2003, led by a 12.8%, or $2.1 billion, drop in Travel services exports. Visits to Canada and related expenditures by foreigners were negatively affected by the SARS outbreak in Toronto. A $1.0 billion improvement in Commercial services exports was largely offset by a decline in Transport services, while Government services exports were flat. On the other hand, services imports expanded in 2003, as all services sectors registered increases. Commercial services imports expanded by $0.5 billion, foreign Travel expenditures by Canadians grew by $0.3 billion and Transport services imports advanced by $0.3 billion.

With declining services exports and expanding services imports, the services trade deficit widened by $3.1 billion to reach $11.5 billion in 2003. A $2.4 billion deterioration in the Travel services trade balance and a $1.1 billion decline in the balance for Transport services were only partially offset by a $0.4 billion improvement for Commercial services, while the Government services balance stayed flat.

Foreign Direct Investment

The flow of both Foreign Direct Investment (FDI) into Canada and Canadian Foreign Direct Investment Abroad (CDIA) slowed in 2003—FDI flows were down 33.6% compared to 2002 and CDIA flows declined by 74.5%. CDIA flows slipped to $30.0 billion in 2003 compared to $45.2 billion in 2002. Declining CDIA in the Finance & insurance (down $14.2 billion over 2002) and Machinery &transport sectors (down $2.4 billion) was only partially offset by $1.2 billion increase in the energy sector.

FDI inflows contracted from $32.3 billion in 2002 to $8.3 billion in 2003, with the declines concentrated in the Energy (down $14.1 billion), Machinery & transport (down $5.7 billion), and Services & retailing (down 2.3 billion) sectors.

Thus, as in the two previous years, outward CDIA flows outpaced inward FDI flows in 2003. Of particular note, the difference between outward and inward FDI flows widened to $21.8 billion in 2003 from $12.9 billion in 2002.

On a regional note, the declines in outward and inward FDI flows from the US were the principal reasons for the reduced flows observed in 2003. CDIA flows to the US fell from $14.0 billion to $6.4 billion, as the US share of CDIA declined to 21.2% from 30.9% a year earlier. Inward FDI flows from the US fell at an even faster pace than outflows—from $24.7 billion in 2002 to $4.4 billion in 2003. The share of annual inward FDI flows originating from the US thus declined from 76.4% in 2002 to 53.0% in 2003. With these developments, CDIA to the US exceeded FDI inflows from the US in 2003, a reversal of the situation seen in previous years.

Inward FDI flows from all other regions also declined, but less dramatically than those from the US. Thus, the EU increased its share of inward FDI flows from 12.5% in 2002 to 24.7% in 2003 and Japan increased its share from 3.1% to 9.9%.

The CDIA position, or stock, was $398.2 billion at the end of 2003, down from $431.8 billon in 2002. The strengthening of the Canadian dollar in 2003, and the associated re-evaluation of the CDIA position, accounted for much of the decline. The inward FDI position increased somewhat last year, from $349.4 billion in 2002 to $357.7 billion.

Portfolio Investment

Canadian net investments in foreign securities (bonds and stocks) was $12.5 billion in 2003, down from $25.0 billion in 2002— a $14.4 billon reduction in stock holdings was only partially offset by a $2.0 billion increase in bond holdings. On the inward investment side, foreign investment inflows favoured Canadian securities (up $14.3 billion over 2002) over bonds (down $12.0 billion).

Official International Reserves

Canada reduced its holdings of Official International Reserves by $4.7 billion in 2003, compared to a $298 million decline in 2002.

Current Account

With the trade and investment developments outlined above, Canada's current account surplus expanded to $25.8 billion in 2003 from $23.4 billion the previous year. Although exports of goods and services declined by a larger amount than imports - down $14.8 billion and $14.0 billion, respectively—the current account surplus was enhanced by a $4.0 billion net reduction in interest payments to foreign investors.

South China: an economic powerhouse

With a population of 170 million—that's about 13% of China's total population—living on only 6.13% of China's total land area, the four South China provinces of Guangdong, Fujian, Hainan and Guangxi Zhuang autonomous region form one of China's most economically and culturally dynamic regions.

Guangdong province, adjacent to both Macau and Hong Kong, is the economic powerhouse of the region. The province of Fujian is famous for being the starting point of the ancient maritime silk road to the Arab world some 1000 years ago, and directly faces the island of Taiwan. Famous for its natural resources, Hainan province is a popular tourist destination with well-protected tropical scenery. And Guangxi Zhuang is known for its multi-ethnic society, with over 40 different ethnic groups.

Special Economic Zones

The five original Special Economic Zones, established since the early days of China's economic reforms, are all located in South China: Shenzhen, Shantou, Hainan, Zhuhai and Xiamen. Shenzhen, one of the most successful zones, is renowned for its growth in the manufacturing sector, and more recently in the information and communications technology (ICT) sector. While Shenzhen has benefited from its close proximity to Hong Kong, Shantou mainly attracts Southeast Asian investors. Zhuhai, on the other hand, has been established as a high-tech belt, while Xiamen attracts many Taiwanese investors, given its proximity to Taiwan. The entire island of Hainan is a special economic zone and is the largest in China.

The five Special Economic Zones play an important role in establishing trade and investment as an essential characteristic of South China, and in positioning the region as an attractive market for exporters and investors from all over the world. In 2002, trade in the four southern provinces totalled $343 billion (40.88% of China's total trade), while the total gross domestic product (GDP) for the region amounted to over $325 billion. GDP growth in South China averaged 9.71%, and total foreign direct investment reached some $28.52 billion for that same year. Consequently, South China boasts some of the highest income levels in the country. Disposable income ranges from $1,150 in Hainan to $2,572 in Guangdong.

Each of South China's four provinces has unique characteristics. Guangdong is China's factory and export processing centre, and is also China's wealthiest province with close to 80 million relatively affluent consumers. Light industry has always been of significance in Guangdong, including handicrafts, food processing and textiles. Recently, more focus has been put on developing heavy industry involving shipbuilding, automobile manufacturing and petrochemical refining.

The province of Fujian is rich in forestry, mining and water resources, and is geographically best positioned for cross-straits trade with Taiwan. Fujian is developing rapidly, thanks to investments mainly from Taiwan.

Unlike the first two provinces, the autonomous region of Guangxi Zhuang is still relatively undeveloped, with agriculture being the primary industry. However, Guangxi is rich in mineral and energy resources and its industrial sector is growing rapidly. With its three ports, Guangxi is well positioned as an entry point into Western China.

Lastly, Hainan is China's youngest province (given provincial status in 1988) and is particularly rich in tropical agriculture and aquaculture.

Pearl River Delta

South China is also home to the Pearl River Delta (PRD) economic zone. The zone includes Shenzen, Dongguan, Guangzhou, Foshan, Jiangmen, Zhongshan, Zhuhai and parts of

continued on page 6 — **South China**

Photo: Joseph Fung

Guangzhou Tianhe District