of world commodity price movements and mitigated the impact of the global cyclical decline.

Openness to trade has also underscored the vitality and stability of Canada's economy, despite the global economic downturn. Trade plays an important role in our economy. More specifically, trade has expanded more rapidly than overall growth in GDP; as a result, the share of GDP represented by trade has expanded from less than 26% for both exports and imports in 1989 to 43.1% for exports and to 38.1% for imports in 2001. In terms of percentage of GDP, Canada exports approximately four times as much as the U.S. and Japan, our two largest individual trading partners. In fact, the Canadian economy is more internationally oriented than that of any other member of the G7 group of nations.

In 2001, Canada's exports of goods and services totalled $471.3 billion, down 2.4% from the peak level recorded in 2000. At the same time, imports of goods and services amounted to $415.6 billion in 2001, down 2.9% from the previous year. With imports falling faster than exports, Canada's trade surplus rose for the year, and our current account balance improved to $30 billion, or 2.8% of GDP. On average, Canada trades $2.4 billion per day with the rest of the world, or about $100 million per hour—a remarkable tribute to our openness and to our ability to compete.

Canada's principal trading partner is by far and away the United States. The U.S. accounted for roughly 82 % of Canadian exports and some 71% of our imports in 2001 (although, these figures may be overstated due to transhipments). Two-way trade in goods and services with the United States fell some 3% in 2001. Part of this decline is due to the contraction of the U.S. economy that occurred over the first three quarters of the year, and part is attributable to the interruption of bilateral trade flows following the September 11, 2001, terrorist attacks.

Merchandise trade accounts for the lion's share of our trade with the United States. Three broad observations can be made about our bilateral merchandise trade. First, the U.S. share of Canadian merchandise exports has increased substantially since 1988 (the last year before the free trade agreements came into effect), rising some 14.4 percentage points to 87.2% in 2001. Gains came largely at the expense of the European Union, Japan and countries outside the Organization for Economic Cooperation and Development (OECD), and were fairly evenly distributed across these destinations. Second, Canada has deepened its exports of its three dominant commodities—motor vehicles, mineral fuels and machinery—possibly signalling a trend toward increased specialization in these areas. Finally, although the U.S. Midwest remains the most important destination for Canadian exports, at 41% of total merchandise exports to the U.S., exports to the U.S. West and U.S. South grew faster than the overall pace of Canadian exports to this country, increasing the importance of these regions.

The changing economic situation of 2001 also dampened the investment climate in Canada and abroad. After reaching a record $98.9 billion in 2000, the flow of net new foreign direct investment (FDI) into Canada plummeted 57% to $42.5 billion in 2001, as the stock of foreign direct investment holdings in Canada rose to $320.9 billion, up 6.2% from the previous year. Nonetheless, FDI inflows were still up more than 20% over the 1998–1999 average, proving that Canada remains a highly attractive place in which to invest. The declines of 2001 are largely attributable to the fact that 2000 was an aberration, caused by high-value takeovers by French firms. In 2001, American investors accounted for just under 91% of the net new investment inflows. Canadian net investment outflows dropped off 22.1% in 2001, to $54.9 billion, as the stock of Canadian direct investment abroad rose to $389.4 billion.

Canada's net liability to foreign residents—the difference between its external assets and external liabilities—was $203.4 billion at the end of 2001, little changed from the level of $202.5 billion in 2000. External assets at the end of 2001 were up 10.4% from a year earlier while external liabilities increased 8.5%. As a result, net liabilities to foreigners fell to 19% of gross domestic product, the lowest level since the mid-1940s.