

Trade and Investment Highlights

Imports Expand Faster than Exports in the Second Quarter

Exports of Canadian goods and services increased by 9.1% in the second quarter, with merchandise exports expanding by 9.6% (See Figure 1 for levels.). However, imports of goods and services increased faster, at 12.4%, with imports of services rising by 12.9%.

As is evident from Figure 2, shipments of energy, autos and industrial goods experienced strong growth, while exports of consumer goods, machinery and agricultural goods declined. Imports of energy, forestry product, and autos experienced notable increases, while agricultural goods was the only sector to experience a quarterly decline in imports.

Merchandise exports expanded to all markets, with the exception of the European Union (EU), where shipments to the United Kingdom experienced a substantial decline. Imports also increased from all major markets. Merchandise imports from the EU registered particularly strong growth, despite a small drop in imports from the United Kingdom. As a result of imports expanding more rapidly than exports, the trade balance deteriorated in the second quarter. Regionally, an improvement in the trade balance with the United States was more than fully offset by declining trade balances with other major markets, in particular with the EU.

Services Trade Deficit Worsens

In the second quarter, overall services exports increased by 5.8%—led by commercial and transport services—while travel services declined. This was, however, offset by a 12.9% increase in services imports—similarly led by commercial and transport services—that widened the services trade deficit by \$282 million to \$7.5 billion. For details by type of services, see Figure 3.

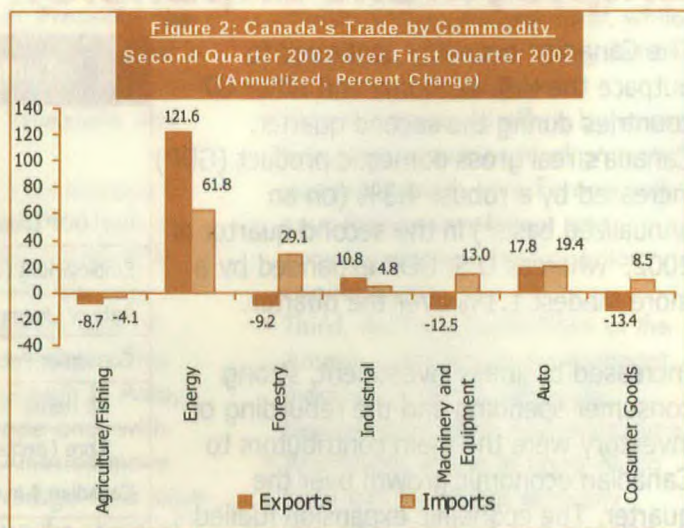
Both Inward and Outward Foreign Direct Investment Decline

The second quarter of 2002 saw a drop in inward Foreign Direct Investment (FDI) to just over half the level recorded in the same quarter in 2001—\$7.9 billion versus \$15.2 billion. The drop in FDI was particularly pronounced in the energy and minerals sector. FDI from the United States and the United Kingdom registered steep declines, whereas FDI from Japan and the EU countries (other than the United Kingdom) registered increases.

Outward Canadian Direct Investment Abroad (CDIA) also registered a substantial decline—to \$8.3 billion in the second quarter of 2002 from \$21.2 billion in the same quarter in 2001. The wood and paper sector was the only sector to register any substantial increase. CDIA to the EU increased, while CDIA to the United States and Other OECD countries recorded considerable contractions.



Source: Statistics Canada



Source: Statistics Canada



Source: Statistics Canada

Canada Adds to Its Official International Reserves

Canada added \$1.5 billion to its official reserves of assets in the first quarter of 2002, compared to a small \$135-million reduction recorded in the same quarter in 2001.

SERVICES SNAPSHOT

Services GDP and Employment

The past decades have seen a broad structural shift toward services in the Canadian economy. The measured contribution of services to Canada's GDP increased to 65.3% in 1997 (the latest year for which this type of data is available) from 55% in 1961, while the corresponding figure for manufacturing fell to 18.9% from 24.1% over the same period. Agriculture, forestry, mining, and other resources-related sectors, which played a significant role in the Canadian economy throughout our history, also experienced similar declines in their relative importance.

The structural shift toward a services-based economy looks even more pronounced, if one looks at the changing employment pattern over time—the share of services in total Canadian employment rose significantly to 74.8% in 2000 from 54.6% in 1961. During much of the 20th Century, manufacturing was the largest employer of all major industrial groups, but its leading position had been surpassed by business services (which include computer, accounting, legal, advertising, architectural and engineering services) by the late 1960s. Further, since 1990, retail and wholesale trade combined have employed more workers than manufacturing.

The transformation of the Canadian economy from a resource- and manufacturing-based economy into a

services-based one has meant many changes in the Canadian labour market. One distinguishing feature of the current structural shift is the importance of knowledge and education for success. Services are, on balance, more knowledge-intensive than other sectors; therefore, they employ proportionately more well-educated workers than other industries. Workers with post-secondary training accounted for 19.7% of total services employment in 1998, compared to an 8.7% share for manufacturing, a 7.1% share for agriculture and a 5.2% share for construction.

The gains in educational attainment have translated into better earnings or higher standards of living for some groups of people, particularly for those in the knowledge-intensive services sectors. Financial, legal, advertising, health care, computer software and engineering services are among the top-paid industries. On average, a full-time worker with some graduate training earns almost two and half times more than a high school graduate or a dropout.

Trade and Investment in Services

The expansion of Canada's international trade and investment in services is an integral part of the broad-based adjustment toward a knowledge-based services economy that is currently under way in Canada. To provide a comprehensive picture of Canada's international transactions in services, the

following overview uses statistics on all four modes of services trade as set out in the General Agreement for Trade in Services (GATS): cross-border trade, consumption abroad, commercial presence and movement of natural persons. This overview establishes that Canada's services trade is already more significant than commonly thought.

Canada's cross-border exports of services totalled \$56.6 billion in 2001 (Consumption by foreigners in Canada amounted to \$16.7 billion, while cross-border exports and services suppliers in foreign countries were responsible for the remaining \$39.9 billion.). At the same time, Canada imported \$65 billion of services (Consumption abroad totalled \$18 billion, while payments for cross-border imports and for foreign services suppliers were \$47 billion.) (See Table 1.).

Over the past decade, Canada's cross-border exports and imports of services have risen at a steady pace. As a share of GDP, Canada's services exports rose to 5.2% in 2001, from 3.4% in 1989-1992 and 4.4% in 1993-1996. Services imports have also expanded faster than GDP; however, the expansion has been more moderate—from 4.9% in 1989-1992 to 5.8% in 1993-1996 and easing to 6.0% in 2001.

The United States remains Canada's principal trading partner in services. Services exports to the United States accounted for 59.2% of Canada's total services exports in 2001 (compared to 85% for goods), up modestly from

Table 1: Canada's Cross-border Trade and Commercial Presence in Services, 1990-2001

	Exports (million)		Annual Growth (%)	Imports (million)		Annual Growth (%)	Balances (million)	
	1990	2001		1990	2001		1990	2001
Total Cross-border Trade	22,381	56,612	8.8	33,018	64,994	6.4	-10,637	-8,382
Travel	7,398	16,682	7.7	12,757	17,998	3.2	-5,359	-1,316
Health-related	68	96	3.2	278	352	2.2	-210	-256
Education-related	769	1,128	3.5	339	818	8.3	430	310
Transportation	4,920	10,523	7.2	6,746	14,209	7.0	-1,826	-3,686
Commercial Services	9,061	27,963	10.8	12,554	32,002	8.9	-3,493	-4,039
Government Services	1,003	1,444	3.4	962	785	-1.8	41	659
Affiliate Sales*	N/A	68,039	N/A	106,311	170,656	4.4		

Source: Statistics Canada, *Canada's International Trade in Services*, Catalogue no. 67-203-XPB, 2002, Colleen Cardillo, *Foreign Affiliate Trade Statistics - 1999 How Goods and Services are Delivered in International Markets*, Statistics Canada Working Paper 11F0027 No. 004, and special data requests from Statistics Canada.

Note: * Affiliate Sales (exports) refer to sales made abroad by foreign affiliates of Canadian firms; the latest available data for this category were collected in 1999. Affiliate sales (imports) refer to sales made by Canadian affiliates of foreign-owned firms in Canada; the latest available data for this category were collected in 1997.