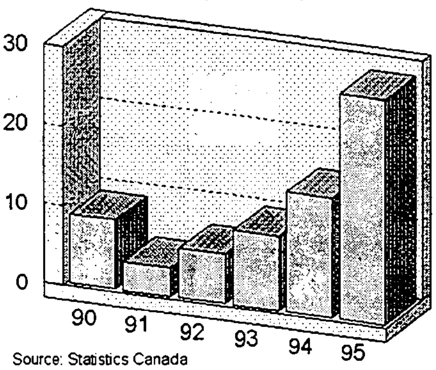
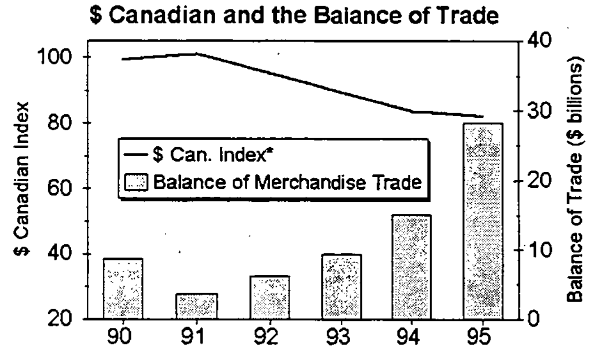
shown a surplus during the 1990s and has been increasing steadily since 1992, doubling to $10 billion in 1995 from $5 billion in 1994.[7]

Fig. 1
Canada's Balance of Merchandise Trade
($ billions)



Source: Statistics Canada

Fig. 2
Relation Between the Value of the $ Canadian and the Balance of Trade



*Canadian dollar indexed against G-10 currencies, 1981=100
Source: Bank of Canada and Statistics Canada

The decreasing value of the Canadian dollar has been cited as one of the factors behind the improvement in the balance of merchandise trade and the growth of exports in the 1990s. Figure 2 shows the inverse relationship between the value of the Canadian dollar and growth in the merchandise trade surplus.[8] In general, a falling dollar stimulates exports while curbing imports, leading to an improvement in the balance of merchandise trade. However, the large increases in the merchandise trade surplus in the 1990s cannot be wholly attributed to a declining dollar. Substantial productivity gains, enhanced international competitiveness and reduced bilateral and multilateral trade barriers (resulting from the FTA, NAFTA and WTO initiatives) also contributed to Canada's trade performance. Further, economic growth in the U.S., Canada's most important trading partner, averaged 5 per cent over the period 1990 to 1995, stimulating Canadian exports.[9]

[7]Statistics Canada, *Canadian International Merchandise Trade,* Catalogue no. 65-001, December 1995, pp. 20-21.

[8]In Fig. 2, the value of the Canadian dollar is given as an index against the weighted value of the currencies of the G-10 countries. An increase in the index implies an appreciation of the Canadian dollar.

[9]OECD, *OECD Economic Outlook,* December 1995.