

# Canadian Trade Review

## A Quarterly Review of Canada's Trade Performance

Third Quarter 2003

*This quarterly review reports on Canada's economic growth in the third quarter of 2003, and highlights our trade and investment performance in key sectors and markets.*

## Canadian Economy Rebounds in Third Quarter

Despite the August blackout, which curtailed production in Canada's economic heartland for part of the month, real gross domestic product (GDP) expanded by 1.1%<sup>1</sup> in the third quarter—reversing the 0.7% decline in the previous quarter. Thus, with the exception of the second quarter, the Canadian economy has expanded over the past eight quarters. South of the border, preliminary estimates indicate that U.S. GDP increased 8.2% in the third quarter after registering 3.3% growth in the second quarter.

Business investment and consumer spending continued to support economic growth. Business investment was up 3.1%, marking the third straight quarterly gain and the largest in 15 quarters. Strong consumer spending, particularly on housing, furnishings and motor vehicles, outstripped income increases, lowering consumer savings and reducing the savings rate.

On the other hand, a sharp drawdown in business inventories limited growth in the quarter. Stocks of motor vehicles declined as dealers provided incentives to clear out last year's models. In addition, the forestry industry sold from inventory to meet demand from the continued boom in home construction in both Canada and the United States. However, farm inventories increased as grain crops, fresh from the fields, were being stored. At the same time, livestock inventories ballooned due to the limited access of cattle and beef products to the U.S. market.

Continued strengthening of the Canadian dollar hampered growth in the export sector. Exports expanded by only 0.3% in the quarter, assisted by higher services exports. Goods exports would have been even lower if not for exports of energy and forest products, which benefited from price increases. Imports of goods and services were down 7.3%. As a result, the current account balance improved in the third quarter.

**Table 1: Canada's Economic and Trade Indicators**

Percent Change at Annual Rates Third Quarter 2003 over Second Quarter 2003	
Real GDP ( <i>annualized</i> )	1.1
Employment ( <i>quarterly increase, level</i> )	14,000
Rate of Unemployment ( <i>quarterly average</i> )	7.9
Consumer Price Index ( <i>third quarter 2003 over third quarter 2002</i> )	
All Items	2.1
Core ( <i>excludes food and energy</i> )	1.7
Canadian \$ in U.S. Funds ( <i>average for quarter, level</i> )	0.7248
Exports of Goods and Services ( <i>annualized, current dollars</i> )	0.3
Imports of Goods and Services ( <i>annualized, current dollars</i> )	-7.3

Source: Statistics Canada

Job creation continued, although the net quarterly increase was only some 14,000 jobs. Despite the overall gains in employment, the average unemployment rate for the quarter increased to 7.9% from 7.7% the previous quarter.

Inflation continued to decline, falling to 2.1% from 2.8%. Core inflation was also reduced in the quarter—from 2.2% to 1.7%.

The Canadian dollar was up 1.25% against the American dollar, considerably less than the 8.0% increase registered in the second quarter. The average value of the loonie for the quarter was 72.48 U.S. cents.

<sup>1</sup> To make quarterly data comparable to annual data, the quarterly figures for trade in goods and services are adjusted for seasonality and are expressed at annual rates by raising them four times (i.e. seasonally adjusted annual rates, or saar). All figures, with the exception of investment figures, are expressed on a saar basis unless otherwise noted.



# Trade and Investment Highlights

## Goods Exports and Imports Decline

Canadian exports expanded by a modest 0.3% in the third quarter (Figure 1). A 1.3% slide in merchandise exports was more than offset by a 12.9% increase in services exports.

Imports of goods and services fell by 7.3%, reflecting a 9.4% decline in commodity imports, combined with a 4.3% increase in services imports.

Increased forestry and energy prices supported expanded exports in these sectors in the third quarter (Figure 2). Exports of agricultural products also increased, but from very depressed levels in the previous quarter, when exports had been severely hampered by the discovery of mad cow disease in a single cow in Alberta. Elsewhere, declines in Canada's three leading export sectors limited quarter-over-quarter export growth. Exports of machinery and equipment were down \$2.1 billion or 9.1%; those of automotive products were down \$1.3 billion or 5.8%; and industrial goods exports were down \$0.3 billion or 1.9%.

Merchandise imports declined by \$8.4 billion or 9.4% in the third quarter. Substantive declines in imports of automotive products (down \$6.4 billion or 29.1%) and industrial goods (down \$2.0 billion or 11.8%) together with slowing imports of agricultural products (down \$0.8 billion or 13.5%) and consumer goods (down \$0.7 billion or 5.6%) were only partially offset by expanded imports of energy (up \$0.8 billion or 17.8%) and machinery and equipment (up \$0.3 billion or 1.3%).

Merchandise exports to the U.S. fell modestly, by 1.2% or \$1.0 billion. All major markets, with the exception of Other (Non-OECD) Countries, also experienced declines in goods exports.

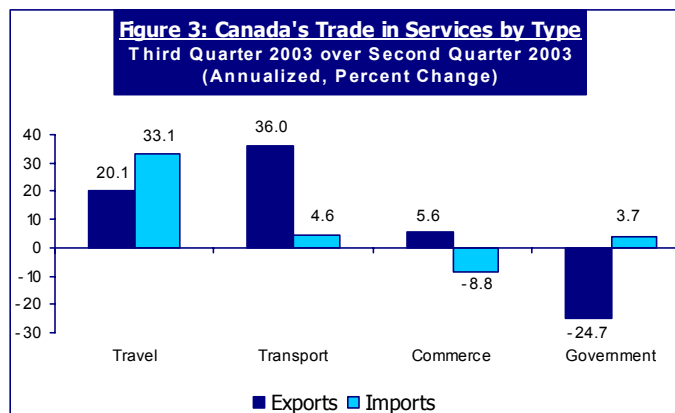
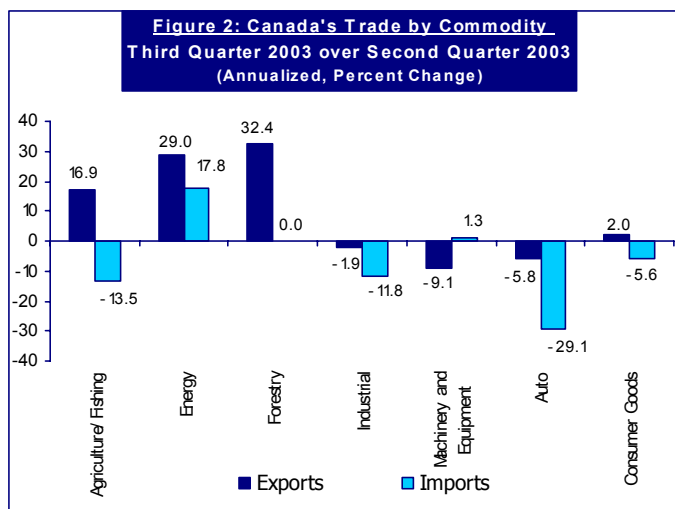
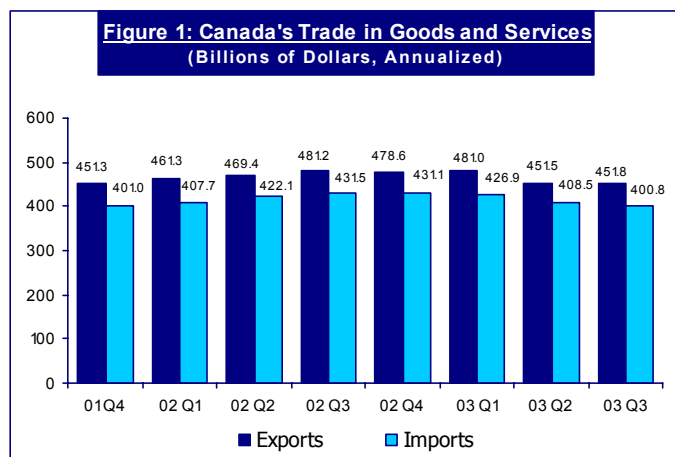
Merchandise imports from the U.S. fell substantially, down 9.6% or \$6.0 billion on an annualized basis. Commodity imports from all other major markets—with the exception of the European Union (EU)—also declined.

With goods imports declining more than goods exports, the merchandise trade surplus expanded \$7.0 billion in the quarter, to \$61.9 billion. A \$5.0 billion increase in the merchandise trade surplus with the U.S., an improvement of \$1.6 billion in the surplus with Japan, and a \$3.2 billion reduction in the trade deficit with Other Countries was only partially offset by the \$2.5 billion enlargement of the trade deficit with the EU.

## Services Exports and Imports Expand

Services exports increased by 12.9% in the third quarter (Figure 3). All subsectors, with the exception of government services, expanded. Services exports to the U.S. dominated the increase, in particular increased travel to Canada by Americans following this sector's recovery from the SARS outbreak. Exports of transport services also grew—by 36.0% or \$732 million. Commercial services, up 5.6% or \$416 million, expanded to all major markets.

Services imports advanced \$708 million or 4.3%. Increased travel by Canadians in the quarter pushed travel services imports up \$1.3 billion or 33.1%. Transport services imports also increased slightly, but imports of commercial services declined by \$776 million or 8.8%. Government services imports remained stable. Overall, the services trade deficit narrowed to \$10.9 billion on an annualized basis from \$11.9 billion in the previous quarter.



Source for figures 1-3: Statistics Canada

## Outward Investment Exceeds Inward Flows

Flows of Canadian direct investment abroad (CDIA) were \$4.9 billion in the third quarter of 2003—down from \$13.6 billion in the third quarter of 2002. Declines were particularly pronounced in the finance & insurance and machinery & transport sectors. Regionally, the declines were concentrated in the EU (down \$5.6 billion), Other OECD Countries (down \$2.7 billion) and Non-OECD Countries (down \$1.9 billion). On the other hand, flows of CDIA into the U.S. were higher than during

the same quarter last year, when Canada registered a net repatriation of earlier investment into the United States.

Foreign direct investment (FDI) flows into Canada amounted to \$2.0 billion in the third quarter of 2003—down from \$2.6 billion in the same quarter a year earlier. Most of the decrease in FDI flows occurred in the finance & insurance (down \$1.9 billion) and energy (down \$0.3 billion) sectors, while FDI to other industries increased by \$1.7 billion. The reductions stemmed primarily from declines in FDI from the EU (down \$216 million), from Other OECD Countries (down \$138 million), and from Non-OECD

Countries (down \$139 million). Overall, then, outward flows of investment exceeded inward flows by \$2.9 billion, compared with a net inflow of \$11.0 billion in the same quarter the previous year.

### Canada's Official International Reserves Remain Unchanged

Official reserves of assets remained unchanged in the third quarter of 2003, compared with a \$1.9 billion reduction during the same quarter in 2002.

# China

## The composition of the Chinese economy and the role of trade

From 1985 to 2002, China's economy boomed (Table 1). As a consequence, nominal GDP per capita increased from 855 yuan in 1985 to 7,972 yuan in 2002.<sup>1</sup> The contribution of agriculture to GDP declined from 28.4% in 1985 to 14.5% in 2002, largely due to the growing significance of the industrial sector (up 8.6 percentage points to 51.7%) and services (up 5.2 points to almost 34%).

Exports and imports have played an increasingly important role in China's economy. In 1985, China's imports of goods and services, as a percentage of GDP, exceeded its exports by 4.1%. However, by 1990 the country had established a positive external trade balance. In 2002, net exports of goods and services accounted for 2.5% of Chinese GDP.

## A major player

The use of net export figures hides the fact that both exports and imports have experienced exceptionally high levels of growth over 1985-2002. During this period, China established itself as a major player in international trade (Table 2). In 1985, China accounted for 1.4% of world goods exports and 2.1% of world goods imports and was running a merchandise trade deficit of US\$15.2 billion. Over the next five years, goods exports increased at an annual average rate of 17.8%, while goods imports expanded by an average of 4.8%, turning the merchandise trade balance into a surplus position. The strong growth in goods exports and imports continued through the 1990s. Nowadays, China accounts for 5.1% of world goods exports and 4.4% of goods

**Table 1: China's economy**

	1985	1990	1995	2000	2001	2002
GDP (bn yuan at current market prices)	896.4	1,854.8	5,847.8	8,944.2	9,593.3	10,239.8
Annual GDP growth, current prices	n.a.	9.7%	25.1%	9.0%	7.3%	6.7%
<i>Per capita GDP, at current yuan prices</i>						
	855	1,634	4,854	7,084	7,543	7,972
<i>Structure of Output % of GDP at current prices</i>						
Agriculture	28.4	27.0	20.5	16.4	15.2	14.5
Industry	43.1	41.6	48.8	50.2	51.1	51.7
Services	28.5	31.3	30.7	33.4	33.6	33.7
<i>Structure of Demand % of GDP at current prices</i>						
Private consumption	51.2	49.1	46.1	48.0	47.9	47.1
Government consumption	13.2	12.1	11.4	13.1	13.6	13.5
Gross domestic capital formation	37.8	34.7	40.8	36.3	39.0	41.0
Net exports of goods and services	-4.1	2.7	1.7	2.5	2.3	2.5

Source: Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries

**Table 2: Merchandise trade, mn U.S. dollars**

	1985	1990	1995	2000	2001*	2002*
Goods exports, fob	27,350	62,091	148,780	249,203	266,098	325,565
average annual growth, %	n.a.	17.8%	19.1%	10.9%	6.8%	22.3%
share of world exports, %	1.4%	1.8%	2.9%	3.9%	4.3%	5.1%
Imports, cif	42,253	53,345	132,084	225,094	243,553	295,203
average annual growth, %	n.a.	4.8%	19.9%	11.3%	8.2%	21.2%
share of world imports, %	2.1%	1.5%	2.5%	3.4%	3.8%	4.4%
Trade balance (goods)**	-15,151	8,950	16,792	24,099	23,131	30,271
<i>Commercial Services Trade, mn U.S. dollars</i>						
Exports	2,925	5,748	18,430	30,146	32,901	37,315
average annual growth, %	n.a.	14.5%	26.2%	10.3%	9.1%	13.4%
share of world exports, %	0.8%	0.7%	1.5%	2.0%	2.2%	2.4%
Imports	2,261	4,113	24,635	35,858	39,032	44,204
average annual growth, %	n.a.	12.7%	43.0%	7.8%	8.9%	13.2%
share of world imports, %	0.6%	0.5%	2.1%	2.5%	2.7%	2.9%
Balance (commercial services)	664	1,635	-6,205	-5,712	-6,131	-6,889

\* Annual growth rates for these years

\*\* With adjustment for cif/fob evaluations, based on IMF data

Sources: World Trade Organization (WTO) Trade database and International Monetary Fund (IMF) Direction of Trade statistics

1 Reliable time series of real GDP (i.e. GDP corrected for price increases) are hard to establish for China due to weaknesses in the country's national accounts system.

imports. Its merchandise trade surplus reached US\$30.3 billion last year.

China's trade in commercial services is only a fraction of the level of its goods trade—about one-ninth. It has maintained a small, but steady, trade deficit in commercial services, at about US\$6-7 billion, for several years now. Nevertheless, the rate of expansion in China's trade in commercial services exceeded the worldwide rate; China increased its share of global commercial services exports from 0.8% in 1985 to 2.4% in 2002 and expanded its share of global commercial services imports from 0.6% to 2.9% in the same period.

### Merchandise exports

The commodity composition of China's merchandise exports saw a dramatic shift from 1985 to 2002 (Table 3). Exports of mineral fuels, which accounted for 26.1% of exports in 1985, dropped to 2.6% of exports in 2002. This reflects rapid growth in China's domestic energy use over this period. Exports of food and live animals, which accounted for 13.9% of all goods exports in 1985, slipped to 4.5% in 2002. On the other hand, exports of machines and transport equipment expanded from 2.8% to 39.0% of exports and, in the process, became the largest export commodity group. Similarly, miscellaneous manufactured goods (for example, toys and games) jumped from 12.7% of exports in 1985 to 31.1% last year.

At a finer level of detail, articles of apparel and clothing accessories (which are classified in the miscellaneous manufactured goods category) comprised the leading export commodity in 2002, accounting for 12.7% of overall goods exports (up from 7.1% in 1985). The other four major export commodities (office machines and computer equipment, electric machinery and parts, telecommunications and sound equipment, and miscellaneous manufactured articles) rose from negligible shares in 1985 to shares in the range of 8% to 11% in 2002. Taken together, the top five commodities accounted for 52.0% of overall goods exports in 2002.

### Merchandise imports

The commodity composition of China's goods imports underwent some changes over this period as well (Table 4 on page 5). The decline in China's ability to meet its energy demand from domestic sources

is evident from the increasing reliance on energy imports. Whereas mineral fuels accounted for only 0.4% of imports in 1985, its share had expanded to 6.5% in 2002. The other major shift in the pattern of imports over the past 15 years or so has been the relative decrease in imports of basic manufactures in favour of relatively more imports of machines and transport equipment.

Electrical machinery and parts was the largest import commodity in 2002, accounting for 18.8% of goods imports (up from only 0.4% in 1985). In second place was mineral fuels, followed by office machines and computer equipment, specialized machinery, and artificial resins and plastic materials—each accounting for between 5.4% and 5.9%. All of these commodities, with the exception of specialized machinery, have expanded their share of imports since 1985. Taken together, the top five commodities accounted for 41.3% of goods imports last year.

It is notable that electrical machinery and parts as well as office machines and computer equipment are both major import and major export commodities. This reflects the fact that exports of these commodities from China contain a large proportion of imported components, principally from other countries in Asia—especially Japan, Korea and Taiwan. In fact, it is estimated that 24% of the value of Japan's exports to China is now accounted for by affiliated trade<sup>2</sup>—a large portion of which is subsequently re-exported worldwide from China.

### Geographic distribution of merchandise exports

The distribution of China's exports shifted from Asia toward North and Central America over the 1990s (Table 5 on page 6). Asia was the destination for 68.8% of China's exports in 1990, whereas 12 years later this share had fallen to 43.4%. Correspondingly, the share of exports to

**Table 3: Chinese goods exports by commodity**

Mn US\$		1985	1990	1995	2000	2001	2002
<b>Exports, by commodity groups</b>							
SITC*	<b>(SITC section, 1-digit level)</b>						
0	Food and live animals	3,803	6,609	9,954	12,281	12,777	14,623
	<i>% of goods exports</i>	13.9%	10.6%	6.7%	4.9%	4.8%	4.5%
1	Beverage and tobacco	105	342	1,370	745	873	984
	<i>% of goods exports</i>	0.4%	0.6%	0.9%	0.3%	0.3%	0.3%
2	Crude materials excl. fuels	2,653	3,537	4,375	4,462	4,172	4,404
	<i>% of goods exports</i>	9.7%	5.7%	2.9%	1.8%	1.6%	1.4%
3	Mineral fuels, etc.	7,132	5,237	5,332	7,855	8,405	8,372
	<i>% of goods exports</i>	26.1%	8.4%	3.6%	3.2%	3.2%	2.6%
4	Animal, vegetable oil and fats	135	161	454	116	111	98
	<i>% of goods exports</i>	0.5%	0.3%	0.3%	0.0%	0.0%	0.0%
5	Chemicals	1,358	3,730	9,094	12,098	13,352	15,329
	<i>% of goods exports</i>	5.0%	6.0%	6.1%	4.9%	5.0%	4.7%
6	Basic manufactures	4,493	12,576	32,240	42,546	43,813	52,957
	<i>% of goods exports</i>	16.4%	20.3%	21.7%	17.1%	16.5%	16.3%
7	Machines, transport equipment	772	5,588	31,407	82,600	94,901	126,983
	<i>% of goods exports</i>	2.8%	9.0%	21.1%	33.1%	35.7%	39.0%
8	Miscellaneous manufactured goods	3,486	12,686	54,548	86,278	87,110	101,168
	<i>% of goods exports</i>	12.7%	20.4%	36.7%	34.6%	32.7%	31.1%
9	Unclassified goods	3,413	11,625	6	221	584	648
	<i>% of goods exports</i>	12.5%	18.7%	0.0%	0.1%	0.2%	0.2%
	<i>Sum</i>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Exports, top 5 commodities in 2002</b>							
SITC	<b>(SITC division, 2-digit level)</b>						
84	Articles of apparel and clothing accessories	1,936	9,669	24,204	36,170	36,743	41,402
	<i>% of goods exports</i>	7.1%	15.6%	16.3%	14.5%	13.8%	12.7%
75	Office machines and computer equipment	10	375	4,803	18,638	23,572	36,228
	<i>% of goods exports</i>	0.0%	0.6%	3.2%	7.5%	8.9%	11.1%
77	Electric machinery and parts	50	1,219	9,558	24,663	25,998	32,863
	<i>% of goods exports</i>	0.2%	2.0%	6.4%	9.9%	9.8%	10.1%
76	Telecommunications and sound equipment	87	2,623	8,409	19,508	23,759	32,017
	<i>% of goods exports</i>	0.3%	4.2%	5.7%	7.8%	8.9%	9.8%
89	Miscellaneous manufactured articles	137	3,726	13,708	22,068	22,085	26,777
	<i>% of goods exports</i>	0.5%	6.0%	9.2%	8.9%	8.3%	8.2%
	<b>Sum of top 5 commodities</b>	2,219	17,613	60,682	121,047	132,157	169,287
	<i>% of goods exports</i>	8.1%	28.4%	40.8%	48.6%	49.7%	52.0%

\* Standard International Trade Classification

Sources: Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries and United Nations (UN) Trade database (with commodity breakdown on SITC basis)

North and Central America increased from 10.2% to 32.1% over the period. To some extent, this shift can be explained by the dominant role Hong Kong has played as an entrepôt for exports from China—Hong Kong was the official recipient of 43.3% of China's exports in 1990. Over time, not only have direct shipments from China increased, but also a larger portion of Chinese shipments via Hong Kong are being correctly assigned to the final country of destination. Thus, Hong Kong's share of China's exports has also dropped (to 15.8% in 2002). Even so, the diminishing role Hong Kong plays as a destination for China's exports cannot entirely explain the fact that China's exports to the U.S. increased from 8.5% of all shipments in 1985 to 29.1% in 2002.

Japan's share of China's merchandise exports has been fairly steady at between one-fifth to one-seventh of the total over the 1990s. In 2002, Japan accounted for 14.3% of China's goods exports. The remaining seven countries in the top 10 ranking each accounted for less than 4% of China's exports last year. Taken together, the top 10 countries accounted for 77.2% of China's exports in 2002. Although Canada did not rank among the top 10 destinations for Chinese exports, Canada nevertheless increased its share of Chinese exports from 0.7% in 1990 to 1.2% in 2002.

### Geographic distribution of merchandise imports

In contrast to the exports side, the regional distribution of China's imports shifted in favour of Asia at the expense of Western Europe and North and Central America over 1990-2002 (Table 6 on page 7). In Asia, the decline of Hong Kong as a source of imports has been offset by expanded roles for Korea and Japan and, to a lesser extent, Singapore, Malaysia and a variety of other Asian countries. The U.S., which accounted for one-eighth of China's imports in 1985, has seen its share decline to less than one-tenth. Taken together, the top 10 source countries for Chinese imports in 2002 accounted for 61.6% of the total. Canada's share of China's imports experienced a decline in the 1990s: Canada accounted for 2.8% of China's imports in 1990, but only 1.3% in 2002.

### Geographic distribution of merchandise trade surplus

Despite the strong growth in exports, China's merchandise trade balance only expanded from a surplus of US\$9.0 billion in 1990 to US\$30.3 billion in 2002. This is because China's imports grew nearly as fast as its exports.

**Table 4: Chinese goods imports by commodity**

Mn US\$							
<i>Imports, by commodity groups</i>							
SITC	<i>(SITC section, 1-digit level)</i>	1985	1990	1995	2000	2001	2002
0	Food and live animals	1,553	3,335	6,132	4,758	4,976	5,237
	<i>% of goods imports</i>	3.7%	6.3%	4.6%	2.1%	2.0%	1.8%
1	Beverage and tobacco	206	157	394	364	412	387
	<i>% of goods imports</i>	0.5%	0.3%	0.3%	0.2%	0.2%	0.1%
2	Crude materials excl. fuels	3,236	4,107	10,159	20,003	22,127	22,737
	<i>% of goods imports</i>	7.7%	7.7%	7.7%	8.9%	9.1%	7.7%
3	Mineral fuels, etc.	172	1,272	5,127	20,637	17,466	19,285
	<i>% of goods imports</i>	0.4%	2.4%	3.9%	9.2%	7.2%	6.5%
4	Animal, vegetable oil and fats	122	982	2,605	977	763	1,625
	<i>% of goods imports</i>	0.3%	1.8%	2.0%	0.4%	0.3%	0.6%
5	Chemicals	4,469	6,648	17,299	30,213	32,104	39,040
	<i>% of goods imports</i>	10.6%	12.5%	13.1%	13.4%	13.2%	13.2%
6	Basic manufactures	11,898	8,906	28,772	41,807	41,938	48,492
	<i>% of goods imports</i>	28.2%	16.7%	21.8%	18.6%	17.2%	16.4%
7	Machines, transport equipment	16,239	16,845	52,642	91,931	107,015	137,034
	<i>% of goods imports</i>	38.4%	31.6%	39.9%	40.8%	43.9%	46.4%
8	Miscellaneous manufactured goods	1,902	2,103	8,261	12,751	15,076	19,801
	<i>% of goods imports</i>	4.5%	3.9%	6.3%	5.7%	6.2%	6.7%
9	Unclassified goods	2,456	8,990	693	1,653	1,676	1,564
	<i>% of goods imports</i>	5.8%	16.9%	0.5%	0.7%	0.7%	0.5%
	<i>Sum</i>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Imports, top 5 commodities in 2002</i>							
SITC	<i>(SITC division, 2-digit level)</i>						
77	Electric machinery and parts	177	2,050	9,744	35,646	39,909	55,495
	<i>% of goods imports</i>	0.4%	3.8%	7.4%	15.8%	16.4%	18.8%
33	Petroleum and petroleum products	46	1,054	4,613	19,049	16,050	17,430
	<i>% of goods imports</i>	0.1%	2.0%	3.5%	8.5%	6.6%	5.9%
75	Office machines and computer equipment	311	772	2,858	10,858	12,660	17,094
	<i>% of goods imports</i>	0.7%	1.4%	2.2%	4.8%	5.2%	5.8%
72	Specialized machinery	4,903	5,936	13,787	11,090	13,143	16,215
	<i>% of goods imports</i>	11.6%	11.1%	10.4%	4.9%	5.4%	5.5%
58	Artificial resins and plastic materials	867	1,499	7,169	13,120	13,932	15,800
	<i>% of goods imports</i>	2.1%	2.8%	5.4%	5.8%	5.7%	5.4%
	<b>Sum of top 5 commodities</b>	6,304	11,310	38,171	89,764	95,694	122,034
	<i>% of goods imports</i>	14.9%	21.2%	28.9%	39.9%	39.3%	41.3%

Sources: Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries and United Nations

In terms of trade with individual countries in 2002, China registered its largest trade surplus (US\$47.7 billion) with Hong Kong. However, the trade surplus with Hong Kong was more than offset by trade deficits with other Asian countries, in particular with Korea, Japan and Malaysia (Table 7 on page 8).

In 2002, China registered a trade surplus of US\$42.8 billion with the U.S.—compared with a US\$1.3 billion trade deficit in 1990. China recorded a growing trade deficit with Germany over 1990-2002 but has been expanding its trade surpluses with other European countries, principally the United Kingdom and the Netherlands.

### China's importance to its major trading partners

So far, we have been examining the trade data from China's point of view. We now flip this over to look at the importance of China as reported by Canada and China's other trading partners.

In terms of exports to China, Hong Kong is most dependent on the Chinese market, with 39.3% of its total 2002 exports destined for China, up from 24.8% in 1990 (Table 8). Exports from Korea to China have expanded dramatically since the mid-1990s, with China's share of total Korean exports more than doubling from 7.0% in 1995 to 14.7% in 2002. China's share of Japanese

exports increased 7.5 percentage points to 9.6% over 1990-2002, with particularly rapid expansion from 2000 to 2002. Moreover, 73% of Japan's export growth in the first eight months of 2003 has been attributed to exports to China.<sup>3</sup> A similar pattern emerges for exports by Australia, Malaysia and Singapore.

Exports to China accounted for 1.2% of U.S. exports in 1990; China's share rose to 2.0% in 1995 and reached 3.2% in 2002. Germany is the only Western European country that saw shipments to China exceed 2% of total exports in 2002. Shipments to China accounted for 1.0% of Canadian exports in 1990, 1.2% in 1995, and then 1.0% again in 2002.

Similarly, imports from China play a dominant role in overall imports into Hong Kong, with China's share rising from 36.8% in 1990 to 44.3% in 2002. Imports from China into Japan and Korea also saw rapid increases. China's share of imports into Japan increased from 5.1% in 1990 to 18.3% in 2002, while for Korea the share expanded from 5.5% in 1995 to 11.4% in 2002.

In the U.S., the share of imports from China expanded from 3.2% in 1990 to 8.6% in 2000 and 11.1% in 2002. As with exports to China, imports from China have played an increasingly important role in Australia, Malaysia, Singapore and Russia.

Among Western European countries, China is more prominent as a source of imports than as a destination for exports. In 2002, China's share of total imports reached 5.1% in the Netherlands, 4.0% in Germany, 3.2% in Italy, 3.1% in the U.K. and 2.5% in France. In Canada, the share of imports from China increased over time from 1.0% in 1990 to 4.6% in 2002. In fact, China moved ahead of Japan last year to become the second most important source of Canada's imports.

**Table 5: Geographic distribution of Chinese merchandise exports**

<b>Regional Distribution</b>								
Year	Asia	North &			Africa	Oceania	Rest of the World	
		Western Europe	Central America	Middle East				
1990	68.8%	10.3%	10.2%	2.3%	0.4%	1.9%	0.9%	5.3%
2002	43.4%	15.6%	32.1%	2.2%	1.1%	1.4%	2.0%	2.3%
<b>Major country destinations of exports; sorted on year 2002 levels</b>								
Mn US\$		1985	1990	1995	2000	2001	2002	
1.	United States	2,336	5,314	24,744	52,162	54,359	108,225	
	<i>% of goods exports</i>	8.5%	8.5%	16.6%	20.9%	20.4%	29.1%	
2.	Hong Kong, China	7,148	27,163	36,004	44,520	46,547	58,662	
	<i>% of goods exports</i>	26.2%	43.3%	24.2%	17.9%	17.5%	15.8%	
3.	Japan	6,091	9,210	28,466	41,654	44,958	53,058	
	<i>% of goods exports</i>	22.3%	14.7%	19.1%	16.7%	16.9%	14.3%	
4.	Germany	746	2,062	5,672	9,278	9,754	14,360	
	<i>% of goods exports</i>	2.7%	3.3%	3.8%	3.7%	3.7%	3.9%	
5.	Korea, Rep. of	0	433	6,688	11,293	12,521	14,015	
	<i>% of goods exports</i>	0.0%	0.7%	4.5%	4.5%	4.7%	3.8%	
6.	Netherlands	327	943	3,233	6,687	7,282	9,482	
	<i>% of goods exports</i>	1.2%	1.5%	2.2%	2.7%	2.7%	2.6%	
7.	United Kingdom	358	664	2,791	6,310	6,780	9,254	
	<i>% of goods exports</i>	1.3%	1.1%	1.9%	2.5%	2.5%	2.5%	
8.	Singapore	2,063	2,016	3,500	5,761	5,792	7,686	
	<i>% of goods exports</i>	7.5%	3.2%	2.3%	2.3%	2.2%	2.1%	
9.	France	228	654	1,844	3,715	3,699	6,115	
	<i>% of goods exports</i>	0.8%	1.0%	1.2%	1.5%	1.4%	1.6%	
10.	Italy	294	873	2,067	3,802	3,993	5,973	
	<i>% of goods exports</i>	1.1%	1.4%	1.4%	1.5%	1.5%	1.6%	
	Sum of top 10 countries	19,591	49,330	115,009	185,182	195,684	286,829	
	<i>% of goods exports</i>	71.7%	78.6%	77.2%	74.3%	73.5%	77.2%	
	<b>Canada</b>	233	443	1,533	3,158	3,350	4,305	
	<i>% of goods exports</i>	0.9%	0.7%	1.0%	1.3%	1.3%	1.2%	
	Other countries	7,505	12,987	32,413	60,855	67,107	80,289	
	<i>% of goods exports</i>	27.5%	20.7%	21.8%	24.4%	25.2%	21.6%	
	<b>TOTAL</b>	<b>27,329</b>	<b>62,760</b>	<b>148,955</b>	<b>249,195</b>	<b>266,140</b>	<b>371,423</b>	
	<i>% of goods exports</i>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Sources: Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries and International Monetary Fund

### An export juggernaut

China has indisputably made its entry onto the world scene as an economic entity to be reckoned with. The rapid growth in China's economy and the accompanying trade expansion has greatly raised its profile, not only in the Asia-Pacific region, but also in the world at large. China's appetite for imports and investments was a key factor that assisted other Asian economies in recovering from the crisis of 1997-98. On the downside, the closer integration

between China and the other economies in the region leaves Asia more exposed to a slowdown in the Chinese economy.

Data for October 2003 show continued expansion of Chinese trade, with exports (at US\$40.9 billion) 37% higher than during the same month a year earlier. It remains uncertain how much of world exports China will end up capturing, and which countries will be pushed aside in the process.

**Table 6: Geographic distribution of Chinese merchandise imports**

<i>Regional Distribution</i>		<b>North &amp;</b>						<b>Rest</b>
<b>Year</b>	<b>Asia</b>	<b>Western Europe</b>	<b>Central America</b>	<b>Middle East</b>	<b>South America</b>	<b>Africa</b>	<b>Oceania</b>	<b>of the World</b>
1990	52.7%	18.1%	16.0%	0.9%	2.0%	0.7%	2.8%	6.9%
2002	57.7%	14.3%	11.1%	3.3%	2.3%	1.7%	2.2%	7.5%
<b>Major source countries for imports; sorted on year 2002 levels</b>								
Mn US\$			<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
1. Japan			15,178	7,656	29,007	41,512	42,797	46,573
<i>% of goods imports</i>			35.7%	14.2%	21.9%	18.4%	17.6%	17.0%
2. United States			5,199	6,591	16,123	22,375	26,220	25,506
<i>% of goods imports</i>			12.2%	12.2%	12.2%	9.9%	10.8%	9.3%
3. Korea, Rep. of			0	236	10,288	23,207	23,389	25,194
<i>% of goods imports</i>			0.0%	0.4%	7.8%	10.3%	9.6%	9.2%
4. Hong Kong, China			4,762	14,565	8,599	9,429	9,423	24,415
<i>% of goods imports</i>			11.2%	27.1%	6.5%	4.2%	3.9%	8.9%
5. Germany			2,447	2,980	8,035	10,409	13,772	15,204
<i>% of goods imports</i>			5.8%	5.5%	6.1%	4.6%	5.7%	5.5%
6. Russia			n.a.	n.a.	3,799	5,770	7,959	8,259
<i>% of goods imports</i>			n.a.	n.a.	2.9%	2.6%	3.3%	3.0%
7. Singapore			241	849	3,398	5,060	5,143	7,224
<i>% of goods imports</i>			0.6%	1.6%	2.6%	2.2%	2.1%	2.6%
8. Malaysia			198	852	2,065	5,480	6,205	7,241
<i>% of goods imports</i>			0.5%	1.6%	1.6%	2.4%	2.5%	2.6%
9. Australia			1,124	1,361	2,585	5,024	5,426	5,287
<i>% of goods imports</i>			2.6%	2.5%	2.0%	2.2%	2.2%	1.9%
10. France			718	1,674	2,649	3,951	4,106	4,101
<i>% of goods imports</i>			1.7%	3.1%	2.0%	1.8%	1.7%	1.5%
Sum of top 10 countries			29,867	36,765	86,547	132,217	144,441	169,004
<i>% of goods imports</i>			70.3%	68.3%	65.5%	58.7%	59.3%	61.6%
<b>Canada</b>			1,150	1,484	2,681	3,751	4,030	3,627
<i>% of goods imports</i>			2.7%	2.8%	2.0%	1.7%	1.7%	1.3%
Other countries			11,463	15,561	42,934	89,128	95,143	101,713
<i>% of goods imports</i>			27.0%	28.9%	32.5%	39.6%	39.1%	37.1%
<b>TOTAL</b>			<b>42,480</b>	<b>53,809</b>	<b>132,163</b>	<b>225,096</b>	<b>243,613</b>	<b>274,344</b>
<i>% of goods imports</i>			100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Sources: Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries and International Monetary Fund (IMF) Direction of Trade statistics

**Table 7: Geographic distribution of the Chinese balance of merchandise trade**
**Regional Distribution**

Mn US\$	Asia	Western Europe	North & Central America	Middle East	South America	Africa	Oceania	Rest of the World
Year								
1990	14,606	-3,260	-2,202	948	-819	800	-935	-393
2002	-29,037	8,574	71,739	-2,579	-3,208	-428	17	-14,715

**Major partner countries; sorted on year 2002 level of trade balance**

Mn US\$	1985	1990	1995	2000	2001	2002
WORLD	-15,151	8,950	16,792	24,099	23,131	30,271
Hong Kong, China	2,386	12,598	27,405	35,091	37,079	47,695
United States	-2,863	-1,277	8,621	29,787	28,174	42,812
Netherlands	53	543	2,415	5,451	5,837	7,497
United Kingdom	-396	-720	819	2,718	3,262	4,722
Italy	-608	-214	-1,049	724	221	508
Singapore	1,823	1,166	102	702	652	-86
France	-490	-1,020	-804	-237	-537	-211
Australia	-941	-893	-958	-1,595	-1,856	-1,263
Malaysia	-12	-482	-784	-2,915	-2,982	-4,320
Russia	n.a.	n.a.	-2,125	-3,537	-5,244	-4,884
Japan	-9,087	1,555	-541	142	2,268	-5,006
Germany	-1,702	-918	-2,363	-1,131	-3,935	-5,052
Korea, Rep. of	0	196	-3,600	-11,915	-10,869	-11,179
<b>Canada</b>	-917	-1,041	-1,148	-593	-680	677

Note: These trade balances are based on trade data reported by China and may not correspond with trade balances derived from trade data reported by China's trading partners.

Sources: Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries and International Monetary Fund (IMF) Direction of Trade statistics

**Table 8: The importance of trade with China for major trading partners**
**Exports to China as a share of the respective country's total world exports**

Country ranking based on the share of exports to China in 2002

	1985	1990	1995	2000	2001	2002
1. Hong Kong	26.0%	24.8%	33.3%	34.5%	36.9%	39.3%
2. Korea, Rep. of	0.0%	0.0%	7.0%	10.7%	12.1%	14.7%
3. Japan	7.1%	2.1%	5.0%	6.3%	7.7%	9.6%
4. Australia	3.8%	2.5%	4.3%	5.7%	6.2%	6.9%
5. Russia	n.a.	n.a.	4.4%	5.1%	4.9%	6.3%
6. Malaysia	1.0%	2.1%	2.6%	3.1%	4.3%	5.6%
7. Singapore	1.5%	1.5%	2.3%	3.9%	4.4%	5.5%
8. United States	1.8%	1.2%	2.0%	2.1%	2.6%	3.2%
9. Germany	1.2%	0.6%	1.5%	1.6%	1.9%	2.2%
10. Italy	1.0%	0.6%	1.2%	0.9%	1.2%	1.5%
11. France	0.8%	0.6%	0.9%	1.0%	1.0%	1.1%
12. United Kingdom	0.5%	0.4%	0.5%	0.8%	0.9%	0.8%
13. Netherlands	0.4%	0.1%	0.5%	0.4%	0.5%	0.6%
<b>Canada</b>	1.0%	1.0%	1.2%	0.9%	1.0%	1.0%

**Imports from China as a share of the respective country's total world imports**

Country ranking based on the share of imports from China in 2002

	1985	1990	1995	2000	2001	2002
1. Hong Kong	25.5%	36.8%	36.2%	43.0%	43.4%	44.3%
2. Japan	5.0%	5.1%	10.7%	14.5%	16.6%	18.3%
3. Korea, Rep. of	0.0%	0.0%	5.5%	8.0%	9.4%	11.4%
4. United States	1.2%	3.2%	6.3%	8.6%	9.3%	11.1%
5. Australia	1.2%	2.7%	5.0%	7.8%	8.8%	10.1%
6. Malaysia	2.0%	1.9%	2.2%	3.9%	5.2%	7.7%
7. Singapore	8.6%	3.4%	3.2%	5.3%	6.2%	7.6%
8. Russia	n.a.	n.a.	1.9%	2.8%	4.4%	5.2%
9. Netherlands	0.3%	0.6%	1.4%	3.6%	4.5%	5.1%
10. Germany	0.5%	1.4%	2.5%	3.4%	3.6%	4.0%
11. Italy	0.7%	1.0%	1.9%	2.7%	2.9%	3.2%
12. United Kingdom	0.4%	0.5%	1.2%	2.2%	2.7%	3.1%
13. France	0.5%	0.9%	1.8%	2.3%	2.3%	2.5%
<b>Canada</b>	0.4%	1.0%	2.1%	3.2%	3.7%	4.6%

Source: International Monetary Fund (IMF) Direction of Trade statistics