

# Monthly Trade Bulletin

Volume 6, Number 12

February 2005

## Key Monthly Trade Indicators (December 2004)

### Highlights

- Canada's total merchandise trade surplus with the world decreased, as imports grew more than exports in December.
- Canada's trade balance with the U.S. also fell.
- The value of the Canadian dollar in terms of the U.S. dollar was down for the month.

	\$ millions	% change over	
		previous month	previous year
<b>Exports</b>	36,482	2.6	9.8
- Exports to U.S.	30,183	3.6	11.0
<b>Imports</b>	31,273	4.0	11.2
- Imports from U.S.	21,350	7.3	8.4
<b>Trade Balance*</b>	5,209	5,489	5,089
- Balance with U.S.*	8,834	9,242	7,510
<b>Commodity Prices**</b>	152.2	-0.2	15.7
<b>Canadian Dollar (US¢)*</b>	83.2	84.3	77.1
<b>Export Prices***</b>	106.3	2.0	5.8
<b>Import Prices***</b>	91.5	0.7	-1.3

\* Data in levels only.

\*\* Index (1982-90 = 100)

\*\*\* Index 1997 = 100

Source: DFAIT compilations based on Statistics Canada data.

## This Month's Feature Report: Foreign Direct Investment Trends in China

Current analysis done by Samad Uddin of the Trade and Economic Analysis Division, Department of International Trade, under the direction of John M. Curtis. Feature report prepared by Ram Acharya and Varsa Kuniyal of the Micro-Economic Policy Analysis Branch, Industry Canada, under the direction of Someshwar Rao.

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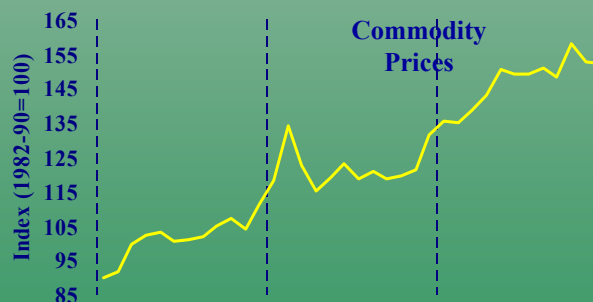
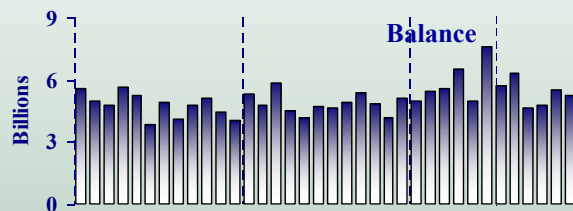
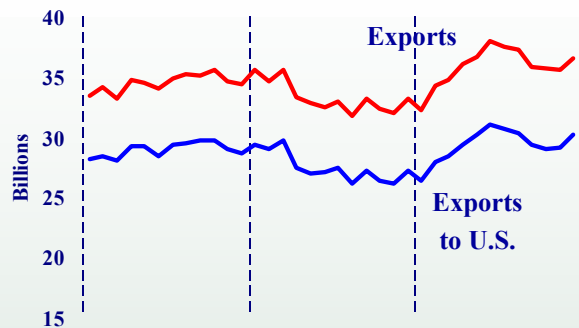
## Trade surpluses grew...

- The overall Canadian trade surplus decreased by \$280 million in December, to \$5.2 billion.
- December's monthly surplus with the U.S. contracted by \$409 million to \$8.8 billion.

## ... and the value of the Canadian dollar fell.

- The Canadian dollar decreased by US1.1¢ in value over December, closing the month at US83.2¢. On a year-over-year basis, the value of the dollar was 7.9 percent higher (or US6.1¢) in December 2004 than for the same month a year ago.
- Commodity prices decreased marginally (0.2 percent) over the previous months level in December. The terms of trade improved as export prices increased more than import prices for the month.

## Merchandise Trade



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## Foreign Direct Investment Trends in China

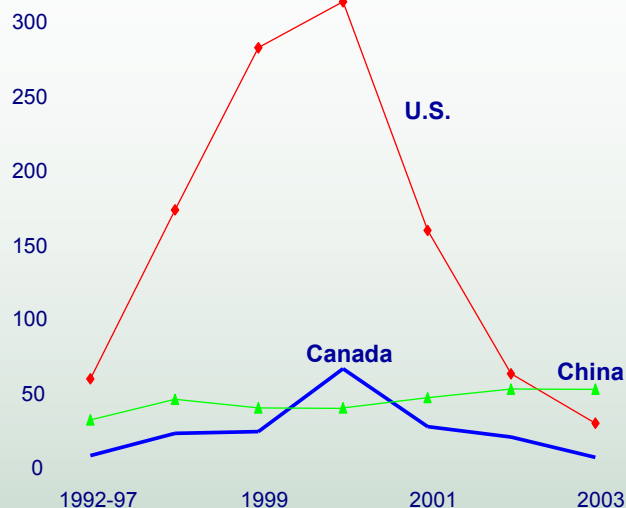
### FDI inflows to China increased substantially in recent years, while they continued to decline in Canada and the U.S...

- Since 2000, both Canada and the U.S. experienced a steady fall of FDI inflows, more severe than any other G-7 countries.
- FDI inflows to Canada fell from US\$67 billion in 2000 to just \$7 billion in 2003, a 90 percent drop.
- On the other hand, FDI inflows in China increased from US\$40.7 in 2000 to US\$53.5 billion in 2003.
- The opening of the Chinese economy combined with a large pool of skilled workers, low wages and an undervalued currency helped attract large amounts of FDI into China.

### ...But, China's FDI outflows are still very small compared to Canada's.

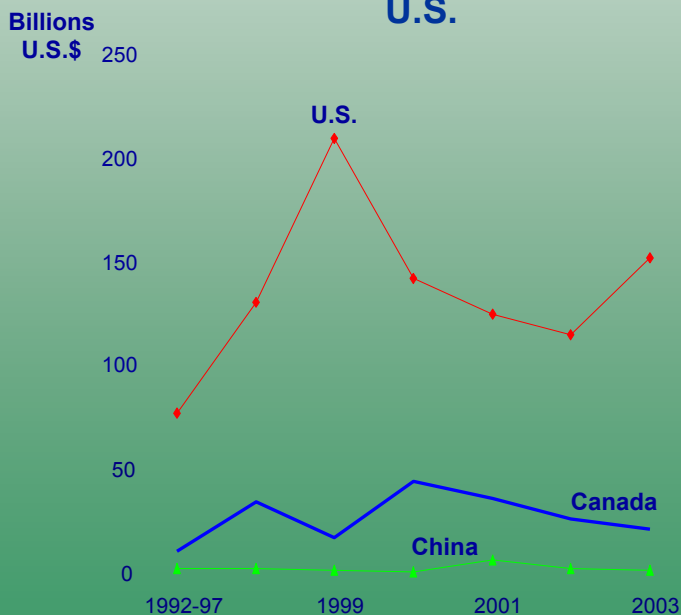
- In 2003, China's FDI outflows was less than US\$2 billion, a lot less compared to US\$152 billion for the U.S. and US\$22 billion for Canada.

Billions U.S.\$ FDI Inflows in Canada, China and the U.S.



Source: United Nations Conference on Trade and Development

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## Foreign Direct Investment Trends in China

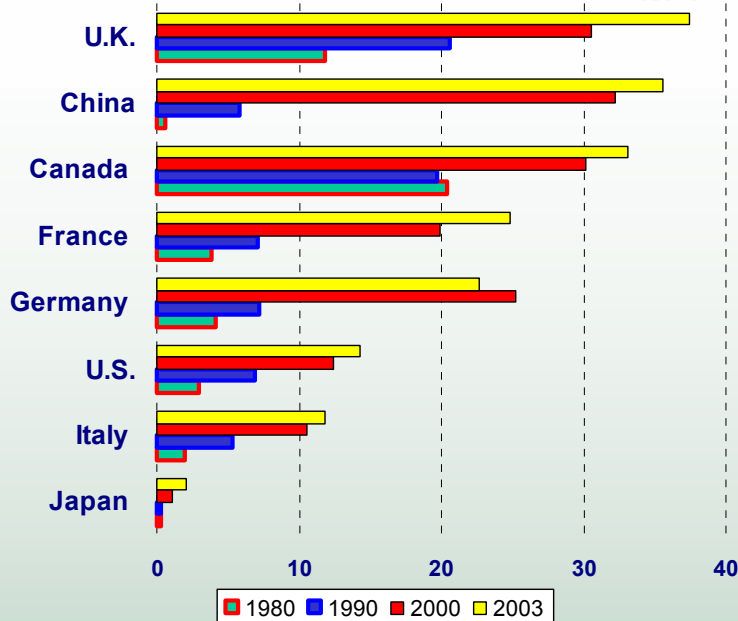
**Since 1980, the inward FDI stock as a percent of GDP has increased considerably in China...**

- China inward FDI stock orientation reached 36 percent in 2003, only one percentage point lower than the most outward oriented G-7 country, U.K.
- China's inward FDI orientation in 2003 was more than double the G-7 countries' average of 16 percent.
- China's inward FDI stock as a percent of GDP increased from 0.6 in 1980 to 35.6 in 2003.

**...however, China's outward FDI orientation is still very small.**

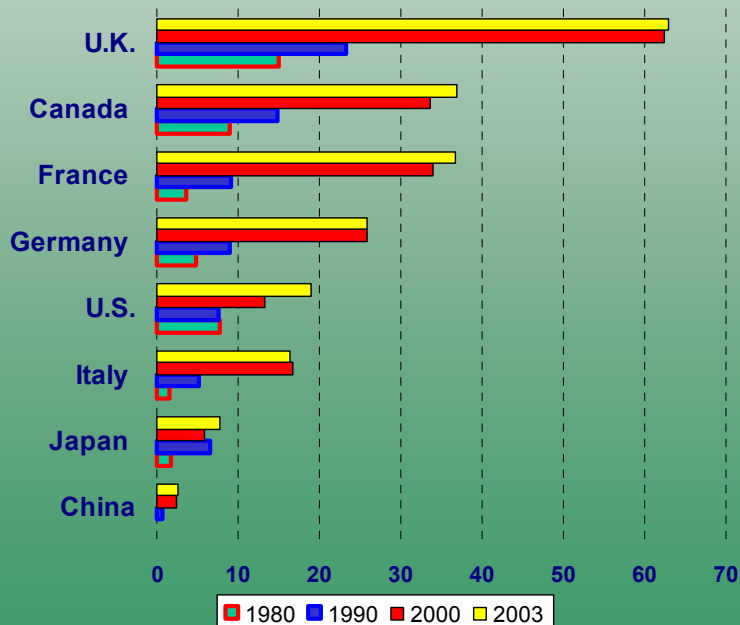
- Since 1990, Canada's outward FDI orientation has more than doubled.
- In 2003, China's outward FDI stock was only US\$37 billion, compared to inward stock of US\$501 billion.

**Share of Inward FDI Stock over GDP (in Percent)**



Source: United Nations Conference on Trade and Development and the World Bank

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Source: United Nations Conference on Trade and Development and the World Bank

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## Foreign Direct Investment Trends in China

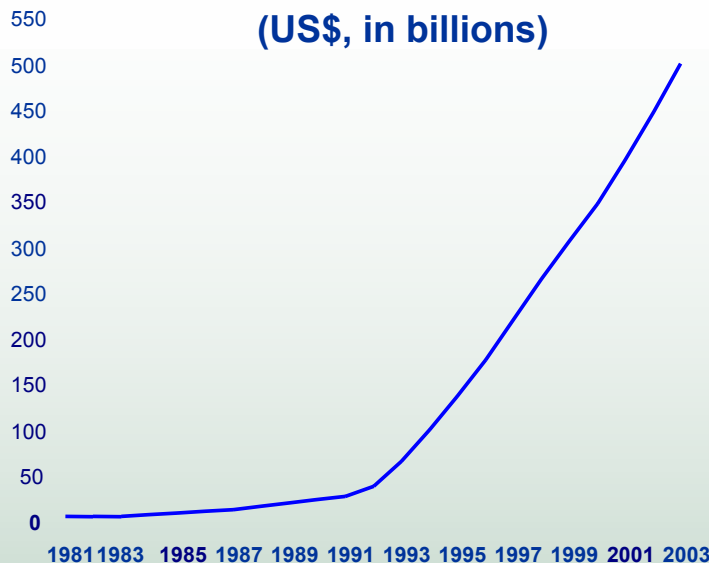
**China has attracted a large amount of foreign direct investment in the last decade.**

- China's inward FDI stock increased from only US\$25 billion in 1990 to over US\$500 billion in 2003. In 2003, China had more FDI inflow than the U.S.
- China has liberalized foreign ownership rules and is offering government incentives to attract FDI. Other countries are taking advantage of China's openness to investment.

**Hong Kong accounted for one-third of FDI inflows into China in 2002, down from 58 percent in 1986.**

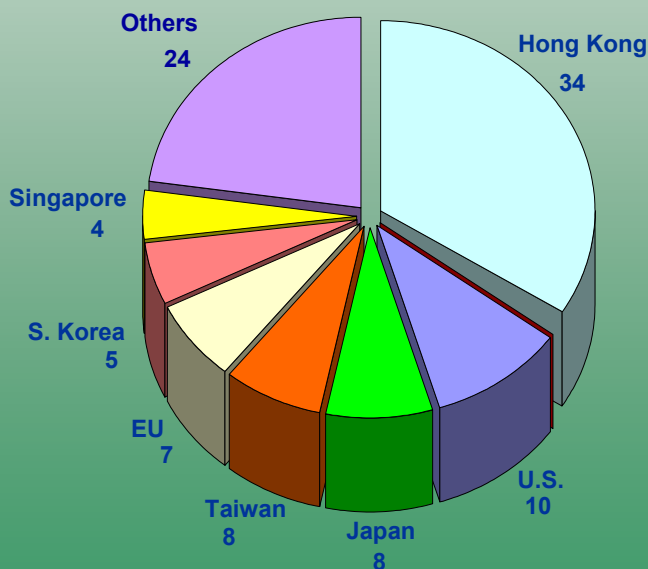
- The U.S. and the EU contributed to less than 20 percent of FDI flows into China. The remaining shares of FDI inflows to China came from its neighbouring Asian economies
- Cross-border M&As increased again from 107 in 2002 to 214 in 2003 contributing to a renewed surge in FDI flows.

**China's Inward FDI Stocks (US\$, in billions)**



Source: United National Conference on Trade and Development (UNCTAD) and Ministry of Commerce, People's Republic of China

**Shares of FDI Inflows to China, 2002 (Percent)**



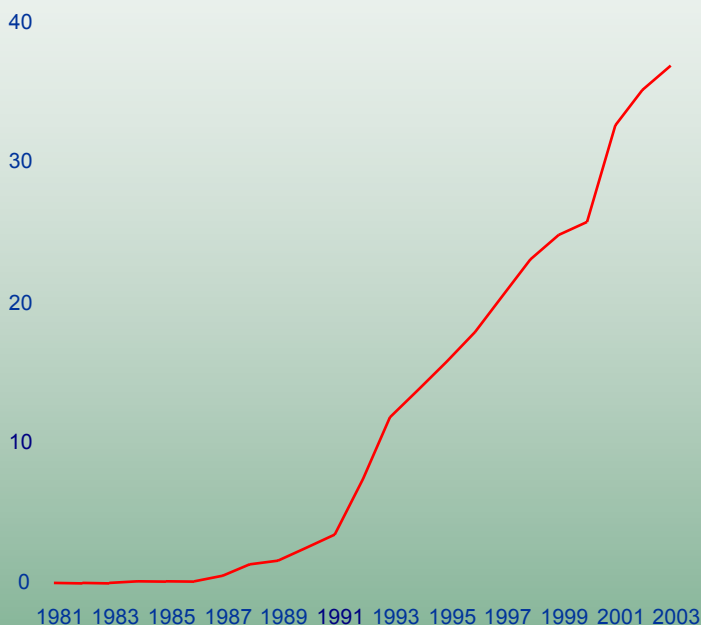
Source: United National Conference on Trade and Development (UNCTAD) and Ministry of Commerce, People's Republic of China

## Foreign Direct Investment Trends in China

### China is not just a magnet for FDI but is also increasingly a source of FDI.

- China's outward FDI stock has increased from US\$2.5 billion in 1990 to US\$37 billion in 2003.
- According to The Economist, as of March 2005, China has over US\$650 billion in reserves which gives it the capacity to make major investments around the world.
- China's strategy is shifting from long-term contracts to increasingly acquiring foreign companies.
- Access to natural resources, brand recognition and the acquisition of strategic assets are the main driving forces. Examples of investments:
  - Natural resources: Companies such as CNPC, Minmetals, Boasteel, Chinalco are seeking investment opportunities in natural resources world wide.
  - Brand recognition: IBM/Lenovo, Thomson/TCL.
  - Technology acquisition: often in the form of establishing R&D centres in developed countries.

### China's Outward FDI Stocks (US\$, in billions)



Source: UNCTAD

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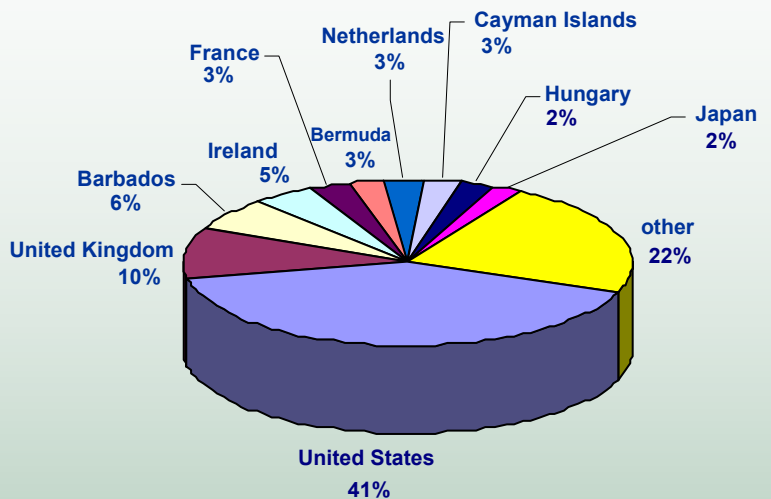
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## Foreign Direct Investment Trends in China

### China's share of Canada's outward FDI stock has been falling.

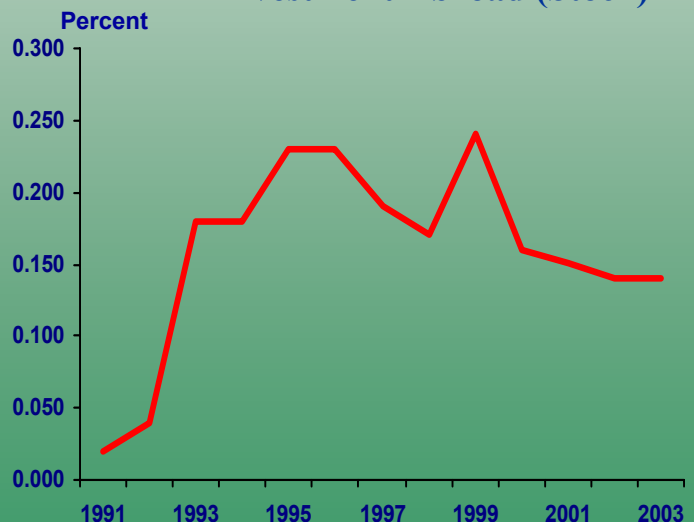
- Canada is a net outward investor and has benefited from an expanded international business presence.
- But results for Canadian FDI in China have so far been disappointing. Canada's stocks of foreign investment in China increased from C\$25 million in 1991 to C\$667 million in 2002, but China's share of Canada's outward FDI stock is still less than 0.2 percent.
- To remain competitive and to improve market penetration, Canada needs to better connect to China's network through increased FDI.

### Countries' Shares in Canadian Outward FDI Stocks, 2003



Source: Statistics Canada

### China's Share of Canadian Direct Investment Abroad (Stock)



Source: Statistics Canada

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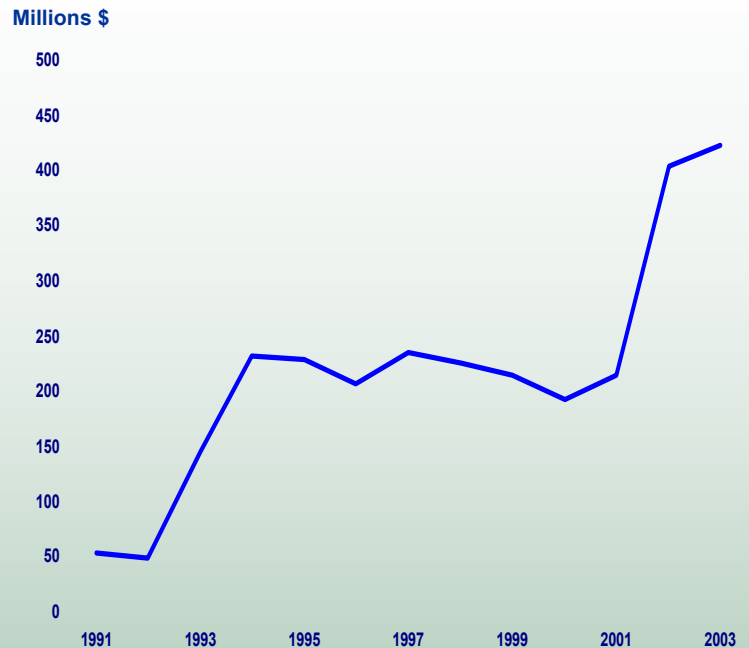
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## Foreign Direct Investment Trends in China

### Canada's share of China's outward FDI is also very small.

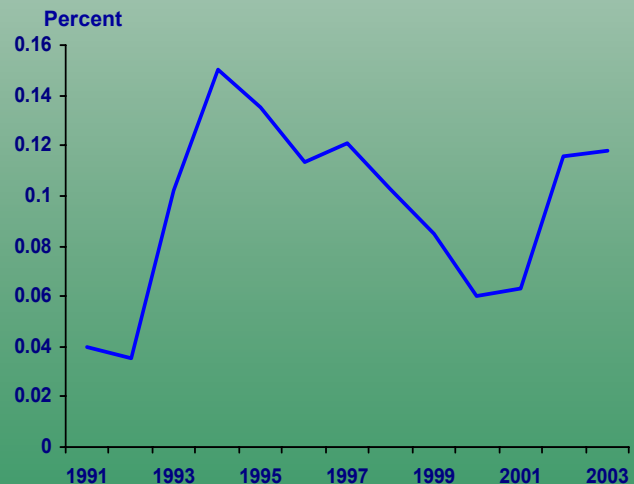
- To date, Canada has not attracted a lot of foreign investment from China.
- China's direct investment in Canada increased from C\$54 million in 1991 to C\$224 million in 2002.
- However, China's share of Canadian inward FDI stock is still very small, less than 0.1 percent.
- China has shown an interest in:
  - Noranda Inc. (China Minmetals Corps)
  - Husky Energy Inc. (China Petroleum & Chemical Corps)

### China's Stock of FDI in Canada



Source: Statistics Canada

### China's Share of Canadian Inward Foreign Direct Investment (stock)



Source: Statistics Canada