



CANADA'S INTERNATIONAL POLICY STATEMENT

A Role of Pride and Influence in the World

COMMERCE

Diplomacy

Defence

Development

Commerce



MESSAGE FROM THE MINISTER



As Minister of International Trade, I am pleased to present the commerce section of Canada's International Policy Statement. This document articulates the contributions made across the Government and across Canada to our success in the new world economy and charts a course for the future.

The stakes are high: fortunate as Canadians are, the rapidly evolving nature of global business means that no advantage can be taken for granted. Our prosperity is anchored in our international success, and it is that prosperity that has brought us the ability to enact the social, cultural and environmental policies that make us the envy of the world. Canada's international commercial performance must meet the challenges of the 21st century global economy to ensure our continued success.

Canadians have what it takes to succeed. We are a magnet for talent and investment. We have one of the world's most extensive networks of international relationships, from governmental contacts through to the grassroots ties that spring from our multicultural society. And we have innovative, lean, focused services to enable global competitiveness and ensure that Canadian business succeeds.

This policy is about managing change; it is about making choices and setting priorities; above all, it is about ensuring our future prosperity as Canadians in a globalized world economy. I am proud to be the Minister who will lead the Government's implementation of this international commerce strategy.

A handwritten signature in cursive script that reads "James Scott Peterson". The signature is written in dark ink and is positioned above the printed name.

The Honourable James Scott Peterson
Minister of International Trade

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COMMERCE

Canada's International Policy Statement is available on-line at
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Canada is one of the world's economic success stories. Canada has a vast territory and enormous natural resources. Our small domestic market means that Canadian companies have had to turn outward, looking to the world for markets, for technology and for investment. We share a land border with the wealthiest and most dynamic economy on earth, and we have excellent sea and air links to Europe and the Asia-Pacific region. We draw talent and ideas from around the world and our people have links to all parts of the world.

We have restored our fiscal sovereignty. We are a world leader in innovation, having invested aggressively in research and development (R&D), in the skills of our people and in the cities where they live. Our commodities and energy resources are in demand to fuel growing economies in Asia in particular, allowing us to leverage our natural endowments and the expertise we have built around them.

The world, however, is changing. Just as we did in the 1990s, we must position ourselves advantageously. Our national advantage is not a given: it must be enhanced through the right business environment at home, and the right strategies to deal with risks and capitalize on opportunities abroad.

In the new global economy, nations, communities and individuals are drawing closer. People, goods, ideas and capital are moving more freely. Democracy and free markets are spreading around the world—but so too are terrorism, transnational crime, and communicable human, plant and animal diseases. Transportation and communication technologies connect us to anyone, anywhere. These developments have changed the environment for international commerce.

Businesses too are transforming the global economy, driven by the demands of consumers worldwide for greater customization and affordability. Production is increasingly regional or global, not national or local. Multinational companies have moved from the branch-plant and world product mandate models to a business model based on global value chains—locating research, product development, design, manufacturing, financing and other services wherever it makes business sense. Business relationships are more innovative, with investment, franchising, licensing and other business arrangements all playing a role. The result is a more complex and interconnected global economy.

The Government's commercial strategy is articulated around the international and domestic drivers of our prosperity. Canada's first international economic relationship is with the United States, which is increasingly framed in a North American context. Of equal importance is creating the domestic conditions that support a globally competitive, productive economy that is a magnet for talent and investment. In the 21st century economy, however, the priorities do not end there. Canada must position itself advantageously with the new economic powers like China, India and Brazil, as well as with established powers that, along with the United States, drive global innovation and investment—the European Union and Japan. And we must support our business community's global engagement, with priority to those ties that contribute to our priority market focus.

This document analyses the challenges and opportunities in the emerging globalized economy, and sets out both the broad strategies and specific shorter-term actions that are being taken or are planned in response. It is urgent to get this right. Canadians cannot take continuing success for granted: the world is changing, and we cannot stand still. We must act now to secure our future.

INTERNATIONAL COMMERCE MATTERS TO CANADA

Canada is the most open of the globe's major economies. We are the world's fifth largest exporter and importer—trade is equivalent to more than 70% of our gross domestic product (GDP). Exports account for almost 40% of our economy, and are linked to one-quarter of all Canadian jobs. Foreign direct investment in Canada is the second highest in the G7 as a share of GDP, while Canadian investments abroad are the third largest in the G7 as a share of GDP. Exports allow Canadian companies to keep generating jobs and remain productive and competitive by selling their goods and services more broadly than in our relatively small domestic market. Imports give our consumers choice and reduce costs, and provide our farmers and manufacturers with inputs and productivity-enhancing technologies. Investment and the movement of people in both directions favour innovation, business and personal growth, and competitiveness. International commerce is the lifeblood of our economy.

NORTH AMERICA

CANADA AND THE UNITED STATES

Our economic relationship with the United States is a vital driver of our economy, but this uniquely complex and sophisticated relationship goes much deeper than dollars. We share strong elements of our heritage, culture and values such as freedom, democracy and the rule of law; we share a continent, and therefore its environment and its security; and we share in the opportunities and challenges of globalization. This relationship belongs to every Canadian, not just to governments or corporations. It is a partnership that we have tended carefully over the years, through formal and informal agreements, diplomatic ties, military and environmental cooperation, and thousands of daily contacts between political leaders and officials and their U.S. counterparts.

Cultivating this relationship takes sustained effort and political will: the situation is not static. The U.S. market is constantly changing. Manufactured goods from China and other low-cost producers create formidable competition. The competitive bilateralism of the U.S. in pursuing a host of new trade agreements means our preferred access under North American Free Trade Agreement (NAFTA) is being, to some extent, eroded. And we see a major shift of population, wealth and political power to the American South and Southwest. These are all changes to which we must respond and adjust.

The Government continues to develop new tools and practical approaches for managing the commercial relationship through all these changes, and weathering the disagreements and crises that arise. Building on the innumerable ties that have evolved over centuries, we have developed institutions and agreements to respond to changing circumstances and demands. The Free Trade Agreement of 1989 led in turn to the NAFTA of 1994 as Mexico embraced a North American strategy. This set in train a work program to continuously update and improve the agreement to the benefit of the continental economy. The terrorist attacks of September 11, 2001, introduced a new and menacing element into the equation, to which we responded with the December 2001 Smart Border Declaration. The ongoing challenges to the effective application of NAFTA in sectors such as softwood lumber, along with the emergence of shared interests not fully addressed in that agreement, have led the Government in the past six months to develop new mechanisms for handling relations with the United States and Mexico: bilateral partnership agreements with each, built around such issues as regulatory cooperation and (with the U.S.) political-level attention to resolving our differences, and the March 2005 Security and Prosperity Partnership of North America. This is the latest in a series of deliberate steps to adapt and update our approach to managing our shared geographic and economic space to emerging needs.

THE LARGEST TRADING RELATIONSHIP IN HISTORY

- Canada and the United States exchange some \$1.8 billion in goods and services every day of the year—well over \$1 million a minute.
- A truck crosses the border every two seconds.
- On average about 300,000 people cross the border each day.
- The U.S. is the largest source of foreign direct investment for Canada, responsible for over 65% of total FDI in Canada.
- The U.S. is the principal destination of Canadian direct investment abroad, accounting for over 43% of the total.
- The Government assists more than 16,000 companies annually in the U.S. marketplace, the vast majority of them small and medium-sized firms

SMART BORDER UPDATE

The latest status report in December 2004 noted significant progress in a wide range of areas. Both countries have made progress on land pre-clearance pilot projects at the Buffalo–Fort Erie Peace Bridge and one other border crossing, adding U.S. pre-clearance facilities at the Halifax International Airport, and expanding the Free and Secure Trade (FAST) program to seven new high-volume commercial border crossings. Canada and the United States have also expanded the NEXUS program for frequent, low-risk travellers from land crossings to include marine and air crossings. The two governments have also undertaken to reduce transit times across the vital Windsor-Detroit gateway by a further 25% during 2005.

THE NORTH AMERICAN FREE TRADE AGREEMENT

The rationalization of cross-border operations between Canadian and American firms was pursued first sectorally, in defence and automotive trade, and then more broadly after the Free Trade Agreement of 1989. This was succeeded by the North American Free Trade Agreement of 1994 as the fundamental rules-based framework for our commercial relationship with the United States and Mexico. It gives us preferential access to both Mexico and the United States, and establishes rules to govern the settlement of disputes between the three NAFTA partners.

NAFTA has drawn the three North American economies more closely together. Since the signing of NAFTA, Canada-U.S. trade has grown substantially. One of NAFTA's most significant effects has been the change in our relationship with Mexico: it is now our sixth-largest export market and we are Mexico's second largest. (In 1990, Mexico was Canada's sixteenth most important export market and Canada was Mexico's seventh largest.)

The NAFTA Commission, the 32 formal working groups, various informal groups, and regular three-way meetings of leaders and ministers are aimed at ensuring the long-term effectiveness of NAFTA as an instrument to manage North American commerce and improve continental competitiveness. These have been and continue to be highly successful, but in certain areas more focused efforts are required to bring necessary reforms, and to ensure that problems are remedied quickly.

KEEPING THE BORDER OPEN TO COMMERCE

The most dramatic example of a new need was created by the terrorist attacks of September 11, 2001. Within three months of the attacks on New York and Washington, Canada and the United States signed a joint Smart Border Declaration, with a regularly updated 30-point action plan. Keeping the border open to commercial activity is the first concern of Canadian business and of foreign businesses using Canada as a gateway to North America. Border uncertainty can affect trade flows and deter investment in Canada since investors will naturally seek the most secure location for their business, while minimizing risk and inefficiencies.

The Smart Border Declaration is our joint effort with the United States to enhance the security of our shared border, keeping it open to legitimate flows of goods, people and ideas, but closed to terrorism. We will continue to work closely with the United States to ensure that border processes are effective in protecting our two countries. The federal government's \$600 million Border Infrastructure Fund demonstrates our commitment to keeping border traffic moving efficiently and effectively.

THE NEW PARTNERSHIP AND INTERNATIONAL COMMERCE

The new security situation slowed the momentum toward building a closer and more efficient continental economy through the NAFTA work program. However, the evolution of the world economy has made it clear that the pursuit of security and prosperity is a complementary imperative. On November 30, 2004, the

THE CANADA-U.S. NEW PARTNERSHIP

On November 30, 2004, Prime Minister Martin and President Bush set out an agenda for increasing the prosperity, security and the quality of life of citizens in Canada and the United States:

- expanding economic opportunity by making North American business more competitive in the global marketplace
- reinforcing joint efforts to secure the safe movement of people and goods within North America, building on the Smart Borders Declaration, and
- enhancing mutual efforts to protect the environment, improve the ability to combat infectious disease, fight crime, and prevent trafficking in humans and illegal drugs.

Prime Minister and President Bush therefore announced a New Partnership agenda devoted to our joint security, prosperity and quality of life, and to working together on issues of mutual interest beyond North America.

A major aim of the New Partnership agenda is to expand economic opportunity by making businesses more competitive in the global marketplace and to respond to the new global economy. This is underpinned by the growing integration of many North American sectors, e.g. automobiles, steel and energy. North American value chains are expanding. As commercial networks spread around the world, the global competitiveness of Canadian, U.S. and Mexican firms is increasingly dependent on the competitiveness and efficiency of the North American economy as a whole.

This has drawn renewed attention to making our economies work well together. Regulatory dissonance can significantly detract from our overall goal of making the NAFTA area more competitive, particularly where we share common regulatory objectives. For instance, the closing of the border to Canadian beef products due to isolated incidents of Bovine Spongiform Encephalopathy (BSE) or “mad cow” disease in Canada demonstrates the negative consequences of unintended “regulatory protectionism” in integrated sectors. Greater regulatory collaboration helps our countries deal in a coordinated way with challenges such as BSE, where variances in our regulatory systems can give rise to market access impediments, cause hardship, and possibly permanently disrupt integrated sectors.

In this context, the Prime Minister and the President agreed to accelerate efforts to liberalize rules of origin—customs formalities that restrict duty-free benefits and impose paperwork burdens that can add

measurably to business costs—and to pursue joint approaches to partnerships, consensus standards and smarter regulations as ways of promoting greater efficiency and competitiveness while maintaining the highest standards of health and safety.

RESOLVING DISPUTES

Underlying the launch of the Canada-U.S. New Partnership was the need to find more effective ways of resolving disputes. NAFTA’s working groups provide a transparent, non-political arena for discussing contentious issues and avoiding disputes. The dispute settlement provisions of NAFTA itself have generally worked well. Over 95% of Canada-U.S. trade is dispute-free. But any relationship as complex as ours with the U.S. is bound to see disagreements from time to time, and the institutional frameworks for managing them—the WTO and NAFTA—have not been sufficient in all cases.

In fact, we currently face certain major problems. Important Canadian sectors such as softwood lumber, wheat and live swine, for instance, have faced repeated challenges under U.S. trade law. NAFTA has failed to protect them adequately from this type of action. But NAFTA cannot lead to North American solutions to trade problems if settlements under its provisions can be overturned by special interests. We continue to remind our trading partners that it is in the interest of all three NAFTA countries to ensure that panel decisions are respected and implemented properly. Persistent litigation is destructive to our sectors and damaging to the United States too: U.S. duties on softwood lumber exports, for instance, drive up significantly the cost of American homes.

SOFTWOOD LUMBER

Since 1982 the U.S. lumber industry has petitioned repeatedly against Canadian softwood lumber imports, alleging that Canadian forest management practices give unfair subsidies to Canadian producers. Twice Canada and the United States have signed agreements to mitigate these concerns—a Memorandum of Understanding in 1986 and the Softwood Lumber Agreement in 1996. After each agreement expired, the United States imposed countervailing and anti-dumping duties on lumber imports from Canada. Panels established under the Canada-U.S. Free Trade Agreement, the North American Free Trade Agreement and the World Trade Organization (WTO) have consistently ruled against U.S. trade actions—and the U.S. has repeatedly failed to abide by these rulings.

In early 2005, Canada requested authority to retaliate against the United States in separate subsidy and injury proceedings in the WTO; retaliation authority would only be granted in the event the United States does not comply with WTO rulings.

We also remain very concerned that the United States has not met its obligations to repeal the so-called Byrd Amendment, which allows anti-dumping and countervailing duties to be distributed to U.S. producers in affected sectors, thereby subsidizing our competitors and discouraging the settlement of disputes. It was found inconsistent with WTO rules in 2003, and the WTO has authorized Canada and seven other members to retaliate. On March 31, 2005, the Government announced that it would be exercising Canada's retaliatory rights beginning May 1, 2005, through the imposition of a 15% surtax on certain imports from the United States.

The Prime Minister and President Bush have committed to exploring ways of improving the functioning of NAFTA trade dispute mechanisms and thereby resolving disputes more effectively. At the institutional level, we are seeking to strengthen NAFTA's capacity to help governments manage disputes. Canada is concerned that the joint NAFTA Secretariat, which is responsible for administering the

dispute settlement provisions, among other things, has been neglected by the U.S. government.

HELPING CANADIAN BUSINESS SUCCEED

The institutional framework for managing trade—from NAFTA through Smart Borders—provides an enabling and secure environment: but more can be done to encourage Canadian business to fully profit from these possibilities. We must therefore be more focused on providing direct assistance to our exporters through business development and advocacy. The United States is where first-time exporters often start; if they are competitive in the United States and do well, they should do well elsewhere. We will work to introduce small and medium-sized enterprises (SMEs)—including Aboriginal firms and those run by women and young entrepreneurs—to the market. We will also encourage more Canadian exporters who have succeeded in the United States to expand to other international markets.

SUPPORT FOR NON-TRADITIONAL EXPORTERS

There are several programs designed to help non-traditional Canadian businesses—particularly women and Aboriginal-owned firms—to succeed. The Prime Minister's Task Force on Women Entrepreneurs underlined the need for innovative mechanisms to support and encourage women exporters. The network of Women's Enterprise Centres provides practical, targeted advice and assistance to help women-owned firms explore their export potential.

Developing Aboriginal exporters is a key element of our trade development efforts government-wide. The Aboriginal International Business Development Committee mirrors the Team Canada Inc concept to specifically respond to the trade development needs and barriers faced by Aboriginal entrepreneurs.

Aboriginal-owned businesses are the fastest growing demographic, and many Canadian firms have developed markets in other countries with strong indigenous populations, such as in South America.

INCREASED REPRESENTATION IN THE UNITED STATES

Canada's Enhanced Representation Initiative is an alliance of seven federal departments working together to strengthen Canada's representation in the United States and expand opportunities for Canadian business. As a result of this innovative partnership, Canada now has:

- seven new offices, in Anchorage, Houston, Philadelphia, Phoenix, San Diego, Raleigh–Durham and Denver;
- two offices with upgraded services, in Miami and San Francisco; and
- eight new representatives, in Portland (Maine), Pittsburgh, New Orleans, Memphis, Omaha, Cleveland, Portland (Oregon) and Richmond.

PROMOTING CANADA IN THE UNITED STATES

Institutions and partnerships work best when each partner's voice and interests are heard. Ongoing difficulties in getting a fair hearing have led the Government to respond in two ways in the recent past. First, working with the provinces, territories and parliamentarians, we have established a secretariat at the Canadian Embassy in Washington to make sure that American opinion leaders and decision makers understand the integrated nature of the North American economy, and take a broader perspective on specific regional and sectoral concerns.

Second, we have increased our commercial and consular presence through the Enhanced Representation Initiative to take our message to the

regions. Canada now has 23 offices in the United States, up from 16. These are vital for obtaining front-line business intelligence and market information, and a valuable complement to our efforts to attract and expand investment from the United States and to encourage Canadian technology partnerships with U.S. companies. We plan to promote investment with a more sector-focused approach, based on cooperation across federal departments and agencies.

COMMERCIAL RELATIONS WITH MEXICO

NAFTA has helped propel Mexico's importance to Canada to a new level. Canadians and Mexicans no longer see one another as the neighbour of our U.S. neighbour, but as two countries enjoying ever deeper

THE CANADA-MEXICO PARTNERSHIP

The partnership was launched in October 2004 to improve opportunities for economic development and investment, and to identify policy areas where the two countries can cooperate. Its aims are:

- to reinforce and build on existing commercial, political and social links while fostering high-level relations among leaders in the public and private sectors of both countries;
- to promote further trade and investment through a network of high-level business representatives;
- to identify obstacles that are detrimental to trade and investment flows and make recommendations for their removal;
- to improve and increase bilateral cooperation between Canadian and Mexican institutions and agencies by focusing on tangible results;
- to promote people-to-people links among cultural, research and academic groups; and
- to address the challenge of global competitiveness in a North American context.

people-to-people and commercial ties. Through NAFTA, Mexico has become a full and vibrant participant in the North American economy. Mexico and Canada are among each other's largest trade partners, and Canadians are the fourth-largest investors in Mexico. Dealings with Mexican business are a logical next step for Canadian companies already dealing with the U.S. southern states, as Mexico is rapidly integrating into supply chains that run through these states. At the same time, Mexico has been signing free trade agreements with others at a rapid pace; by the time it concludes its negotiations with Japan, it will be the only country in the world with free trade with Canada, the United States, the EU and Japan. It has also been responding to internal needs and external opportunities through rapid economic development in its physical, energy, financial and communications infrastructure.

These developments have caused the Government to lay the groundwork to further develop the bilateral relationship, complementing three-way efforts based on NAFTA. On October 25, 2004, the Prime Minister and President Vicente Fox launched the Canada-Mexico Partnership. This high-level public-private forum will strengthen bilateral economic and policy cooperation, and promote discussion among the private and public sectors at senior levels. The Canada-Mexico Partnership will establish strategic networks enabling our business communities and governments to be more agile in their responses to the challenge of sustaining our prosperity and improving our mutual competitiveness, security and prosperity.

THE SECURITY AND PROSPERITY PARTNERSHIP OF NORTH AMERICA

The third and most recent step in this strategy to renew the framework for Canada's continental relationships was endorsed by the NAFTA leaders at their March 2005 meeting, where they established the Security and Prosperity Partnership of North America. The security pillar will rest on a common approach to protecting North America from external threats, preventing and responding to threats within North America, and further streamlining the secure and efficient movement of legitimate, low-risk traffic across our shared borders. The prosperity pillar is grounded in a number of

concrete actions that flow from the earlier Canada-U.S. New Partnership and the Canada-Mexico Partnership. The Partnership aims to enhance North American competitiveness and improve the quality of life of our people through actions that:

- improve productivity through regulatory cooperation to generate growth, and maintain high standards for health and safety;
- promote sectoral collaboration in energy, transportation, financial services, technology, and other areas to facilitate business;
- reduce the costs of trade through the efficient movement of goods and people; and,
- enhance the stewardship of our environment, create a safer and more reliable food supply while facilitating agricultural trade, and protect our people from disease.

The Government will:

- pursue, under the partnership agreements, regulatory compatibility within North America—such as mutual recognition of professional qualifications and certification, and elimination of red tape (e.g. redundant testing requirements), while maintaining high standards of health and safety—and work aggressively to reduce rules-of-origin costs on goods traded among NAFTA partners;
- work with the highest levels of the U.S. government to ensure the effective resolution of trade disputes within North America;
- work with our partners at national, provincial/state and municipal levels to improve border infrastructure, including in the Detroit-Windsor corridor; and
- in concert with Canadian stakeholders and representatives, broaden and deepen our trade and investment advocacy efforts in the United States to build allies, influence decision makers and advance Canada's positions on issues that affect trade, investment and competitiveness.

GETTING THE DOMESTIC ENVIRONMENT RIGHT

The Canadian economy's competitiveness and prosperity are increasingly being shaped in the global marketplace. Our performance at home and our success abroad increasingly depend on each other. Productivity and international competitiveness are linked and mutually reinforcing. What makes an economy productive serves to make it more competitive. Productive economies also attract more foreign investment and favour innovative and globally competitive firms with flexible, forward-looking strategies.

MAKING CANADA A MAGNET FOR TALENT AND INVESTMENT

In the new international marketplace, businesses scour the world for greater efficiencies, cost savings and competitive advantage, and nations compete against nations to attract this business activity. Canada fares quite well on the broad factors that influence business location decisions: education and health care, a healthy environment with abundant green spaces, cultural richness and diversity, and dynamic communities. We are also competitive on many specific business environment factors: good financial and physical infrastructure, excellent universities and research facilities, sound fiscal management, smart regulatory controls, skilled labour and a ready supply of qualified professionals. We are among the most open major economies to inward and outward trade and investment. Growing two-way foreign investment

benefits us significantly: foreign-controlled firms operating in Canada now account for 45% of exports and 30% of total business revenues.

Our competitiveness on these fronts cannot be taken for granted: foreign and domestic investors alike are constantly reassessing options. When our performance in attracting investment weakens, as it has in recent years, there are long-term implications for the well-being of Canadians. This trend must be reversed. We must continuously improve our business and investment climate to attract and retain all types of investment, and that means recognizing the criteria on which decisions are made, building on our strengths and addressing perceived weaknesses.

The Government cannot and will not attempt to address every key variable for modern business. Firms have various strategies, some more successful than others, to deal with continually changing and unpredictable variables, such as exchange rates or energy prices. Companies have access to a variety of short-term financial instruments to hedge against the risk of unfavourable exchange rate movements. In the longer term, flexible globalized companies adapt to sustained changes in accordance with the circumstances. Clearly, "low dollar" periods give companies an edge that they can parlay into market expansion abroad. A high dollar, by contrast, can reduce the cost of investments abroad (e.g. to secure access to resources or markets), and favour renewing industrial plant by importing productivity-

CANADA'S ECONOMIC POLICY: DRIVING PRODUCTIVITY AND COMPETITIVENESS

- Invest in people: skills development
- Invest in infrastructure: power, communications, transportation, social infrastructure (e.g. health care)
- Practise sound fiscal policies: manage debt, manage tax burden on individuals and firms
- Strengthen our entrepreneurial capacity to generate and apply new ideas: drive from innovation to commercialization
- Smart government: smart regulation and a helpful business environment
- Regional and sectoral development: skills, infrastructure and sectoral support
- Promote trade and investment: maintain a sound investment climate; secure access to foreign markets, inputs and technologies; ensure consumers have wider choice and better quality at competitive prices
- Reinforce the domestic economic union

GETTING THE DOMESTIC ENVIRONMENT RIGHT

enhancing machinery, equipment and technology. Canada's business community has proven itself remarkably resilient in adapting to these shifts in external variables, and undoubtedly will maintain this performance in the future.

Canada lags behind other G7 countries and Australia in highly qualified personnel (e.g. science and technology professionals and technicians). Canada ranks 12th among the countries of the OECD in its ratio of R&D spending to GDP, and Canadian performance in taking new technologies to market is also cause for concern. With foreign-owned companies responsible for a third of private sector R&D spending in Canada, diminished investment threatens to weaken our performance further. These trends threaten our future prosperity.

The Government's international commerce strategy focuses on making us a more attractive location for investment through such actions as:

- *Smart regulation.* In today's world, regulation is a significant competitive advantage and a key instrument for achieving our social, environmental and economic objectives; the Government's *Smart Regulation: Report on Actions and Plans* of March 2005 sets out how it will pursue these objectives, implement the recommendations of the External Advisory Committee on Smart Regulations, and, by internalizing a global perspective, eliminate the differences that make no difference.
- *Investing in people.* The Government will help workers to upgrade their skills through lifelong learning and targeted skills development, to make sure that their qualifications are relevant to the needs of globally competitive business and to provide options for communities and individuals grappling with economic change; we will promote the internationalization of education through academic networking among Canadian colleges, universities and international partners and through student exchange programs to build our educational and cultural assets.
- *Enabling new Canadians.* In order to enhance the attraction of Canada to highly skilled immigrants, the Government will facilitate their integration through new admissions processing, credentials recognition, training and support programs.

- *Innovation.* The Government will strengthen innovation by providing access to early-stage financing for innovative firms, and by actively encouraging university research and the commercialization of new technologies by Canadian companies and research institutions; and we will support international science and technology partnerships between Canadian firms and research institutes and their counterparts in other countries, particularly China and India, where the Prime Minister's interventions during his January trips have opened doors to expand such contacts significantly.

PROVIDING THE RIGHT SERVICES TO BUSINESS

Canadian SMEs are significant players in international commerce, doing business in every country. Our Trade Commissioner Service provides assistance to all Canadian companies, but often plays a crucial role in assisting SMEs with market intelligence, contacts and troubleshooting when entering new markets. The Trade Commissioner Service is also responsible for developing export prospects, financial options and investment opportunities, as well as nurturing relationships and international agreements. Its work is complemented by that of other parts of the Government, including Export Development Canada and the Canadian Commercial Corporation. Further support comes from trade missions, and the focused pursuit of important business opportunities, which are typically bid on by major corporations that in turn rely on a web of smaller players within their value chains.

Commercial relationships in the global economy go well beyond exports and imports. Companies can get access to technology, expertise, resources, inputs or distribution networks through franchising or licensing deals, strategic alliances, personnel exchanges or management contracts. They can also proceed by way of investment, whether to create new facilities, acquire access to resources or distribution channels, or cement alliances. In fact, for some areas this is a critical element in corporate strategies: growing a business abroad may only be possible by establishing a foreign branch or an affiliate, especially where there are strict national controls (e.g. banking or insurance, industries where Canadian firms operate worldwide), or where

GETTING THE DOMESTIC ENVIRONMENT RIGHT

SELECTED TRADE AND INVESTMENT PARTNERS

All data in billions of Canadian dollars

	Exports to	Imports from	CDIA*	FDI**
U.S.	348,2	208,9	164,9	228,4
Japan	8,5	13,4	9,1	9,7
U.K.	7,6	9,6	40,7	27,1
China (excl. HK)	6,6	24,1	0,5	0,4
Mexico	3,0	13,4	2,8	0,1
Germany	2,7	9,4	7,8	7,3
France	2,4	5,3	11,6	31,6
Italy	1,7	4,6	1,6	1,0
Brazil	1,0	2,3	7,6	0,8
India	0,9	1,6	0,2	0,1
Chile	0,4	1,3	5,9	n/a
Korea	2,3	5,8	0,6	0,3
Australia	1,6	1,7	7,8	2,0
World	411,4	355,2	399,1	357,5

*Stock of Canadian Direct Investment Abroad

**Stock of Foreign Direct Investment in Canada

Merchandise exports and imports from 2004, CDIA/FDI from 2003

regulatory or tariff barriers make trade an uneconomic way to service the market. International investment is therefore often important to assure a firm's long-term growth and profitability.

The Canadian economy also benefits from outward investment, which contributes to competitiveness and to increased R&D, and leads to technology transfers and spillovers to our economy. We must support such international business appropriately with the right rules-based framework, both within the receiving country and between Canada and that country: the confidence to invest and expand must be based on assurances of predictable and equitable treatment.

We will therefore enhance our capacity and flexibility in support of Canadian companies wherever they do business, including through support for investment and non-equity arrangements as drivers of international growth.

Our trade resources, while considerable, are limited compared to the efforts deployed in key markets by competitors such as the United States, China, Brazil, and the European Union, not to mention more focused

competitors like Australia (with 12 trade offices in China compared to Canada's eight, half of which are contracted and operated by the Canada-China Business Council). These limited means dictate focus and efficiency: we must work smarter than the competition to ensure that our trade and investment activities have the maximum impact. The Government will consult stakeholders about two possible initiatives to deliver on this.

First, businesses need as many trade representatives as their competitors in key markets. Moving trade commissioners from one country to another is a short-term answer to specific opportunities such as major engineering and infrastructure projects, but a sustained Canadian presence would be far more effective. Our clients need to have a say in where our scarce resources are best allocated: these people on the ground are key sources of business intelligence for Canadian firms, helping to identify and correct potential barriers to trade and investment, and helping to make the right business connections in a diverse and complex environment.

And second, we need to improve our ability to showcase our innovations to the world. The federal government's February 2005 Budget provided funding

GETTING THE DOMESTIC ENVIRONMENT RIGHT

WORKING WITH BUSINESS

- Canada's Trade Commissioner Service offers a vast array of direct support and local market intelligence to new and existing Canadian exporters and investors worldwide, in person across Canada and worldwide, and on-line
- Certain programs aim to support business associations' services to new exporters, and to educate new-to-exporting firms (e.g. New Exporters to Border States)
- CIDA's Industrial Co-operation Program, Export Development Canada and the Canadian Commercial Corporation offer specialized services such as financial support for feasibility and viability studies, credit and political risk insurance, bonding support and guarantees, direct loans for buyers, as well as export contracting services.
- International trade fairs and high-level missions such as those led recently by the Prime Minister, the Minister for International Trade and his Parliamentary Secretary to China, India, Brazil and the Middle East include business and allow them to strengthen contacts and networks and clinch deals.

to expand science and technology links and international R&D teamwork, but bridging the gap between domestic innovation and international commercialization will take effort and collaboration across the government. As there is currently no regular, blue-ribbon international global technology summit, we will examine how to create and host one to attract global technology leaders to Canada.

The Government will:

- expand the tools available for equity financing and use the full range of instruments of Export Development Canada, CIDA-INC and the Canadian Commercial Corporation to support international commerce, especially for SMEs;
 - develop a program to increase international science and technology collaboration by Canadian organizations, to promote Canadian R&D capacity abroad, and to accelerate the commercialization of R&D;
 - examine innovative ways to attract strategic foreign investment, exploring in particular the creation of
- an annual Global Technology and Innovation Summit to position Canada as the springboard to North America;
 - create new links among tourism, trade and investment, and showcase Canada through major events such as the 2010 Olympic and Paralympic Winter Games in British Columbia;
 - provide the Trade Commissioner Service with new tools to support Canadian businesses in their overseas activities, extending beyond export opportunities to include potential joint venturing, outward investment, and R&D partnerships;
 - create a permanent office to support Canadian businesses pursuing major international infrastructure projects; and
 - create a forward-looking and flexible framework for consultations and engagement to ensure that stakeholders, clients and interested citizens continue to actively contribute to Canada's international trade and commerce positions and priorities.

SMALL BUSINESSES ARE BIG

SMEs are leaders in job creation and critical engines of growth in our domestic economy. Of the almost 40,000 Canadian companies that export, 97% are SMEs (84% are considered small companies, having fewer than 100 employees).

In 2002 they exported \$70 billion worth of goods and services, representing 20% of the overall value of exports. The Canadian Federation of Independent Business estimates that 36% of Canadian small and medium-sized firms export or import directly, and another 19% participate in supply chains that are based at some stage on exporting or importing.

MARKETS AND OPPORTUNITIES ABROAD

In commerce, as in all areas of human endeavour, relationships count. Business ties flourish where knowledge and trust are the rule. A multicultural, open society like ours, boasting strong connections with all parts of the world—one in five Canadians was born abroad—enjoys a considerable advantage. We are actively involved in cultural, commercial and educational communities abroad—ties that deepen the relationships and sustain our prosperity. To build on these assets, the Government will concentrate on building solid government-to-government relationships from working level contacts right up to leaders' meetings and formal agreements, and it will foster the development of business-to-business and other non-governmental ties. It will not limit itself to traditional bilateral relationships: increasingly business requires support at a regional level, especially in the trilateral North American economy.

Commerce, as distinct from trade or investment, embraces the full range of international business activities—from exporting and importing, through two-way investment, to licensing, partnering, management contracts and more. This means the Government must offer its support across a wider spectrum. As long as governments continue to direct procurement, set tariffs and regulations, and otherwise shape commerce, there will be agreements and understandings that underpin good commercial relations, sometimes in areas related to economic activity (e.g. trade, fisheries, environmental cooperation), sometimes in areas further removed (e.g. cultural agreements, understandings on human rights).

Formal agreements are the foundation of mutually advantageous and stable relationships. As Canadians trade internationally, they may encounter roadblocks such as tariffs that make exchanges artificially uncompetitive, different regulatory approaches that add compliance costs, and a lack of respect for intellectual property rights. By negotiating multilateral, regional or bilateral agreements, the Government helps Canadian exporters, small and medium-sized enterprises in particular, to overcome these barriers. The objective is to encourage openness, predictability, order and a more level playing field in business dealings, and reduce or eliminate the frictions that arise from different interests, cultures or customs. Open and predictable international policies are as important for modern business as advances in communications and transportation. The counterpart of building the right

relationships internationally is grounding them domestically in a sustained consultative dialogue with partners in business, interested citizens, communities, and other orders of government, who share a stake in Canada's international success and in the domestic conditions that sustain it.

THE WORLD TRADE ORGANIZATION

The rules-based multilateral trading system embodied in the World Trade Organization underpins our commercial relations with its 147 other members. At their 2001 meeting in Doha, Qatar, trade ministers from WTO members adopted the Doha Development Agenda of trade negotiations. This Agenda calls for putting the interests and needs of the developing countries, the vast majority of the membership, to the fore, consistent with the overall objective of the WTO to increase economic growth and raise standards of living by making trade more free and predictable.

A successful conclusion of the Doha Agenda negotiations would be a significant boost to Canada's international commerce strategy and to the development prospects of most of the WTO membership, and achieving agricultural trade reform is at its heart. It is only through the multilateral forum of the WTO that we can hope to address the highly trade-distorting subsidies offered by a small handful of countries. Not only do our producers, and those from around the world, need a level playing field on which to compete, but we must also expand market opportunities for developing countries. We also seek greater market access for our exports: Canada is the world's fourth-largest agri-food exporter.

Canada, like many other WTO members, will face considerable challenges in this round of negotiations. While the Government will vigorously defend the interests of all of our stakeholders, we are well aware of our domestic sensitivities. In the agri-food sector we will press hard for an equitable outcome for all countries, one that puts producers from around the world on the same footing. We will continue to aggressively defend the ability of Canadians to choose how to market their products, including through orderly marketing structures such as supply management and the Canadian Wheat Board.

MARKETS AND OPPORTUNITIES ABROAD

At the same time, Canada will seek greater market access for non-agricultural products and services, and better rules to reduce unfair anti-dumping and countervail actions that limit trade, and that meet the special needs of developing countries.

The Government will:

- aggressively pursue an ambitious and balanced outcome to our current World Trade Organization negotiations under the Doha Development Agenda.

OTHER TRADE, INVESTMENT AND RELATED COMMERCIAL AGREEMENTS

Bilateral agreements can take us further than the WTO by introducing liberalization in areas that some members of the WTO may not be ready to discuss. We have bilateral and other regional agreements in place or under negotiation with a number of other countries that set new benchmarks in such key areas as market access for goods and services, investment protection, transparency and subsidies.

In addition to broad-based agreements, issue-specific agreements can also be significant for businesses, on matters as varied as landing rights for increased air passenger service, dual taxation accords, bandwidth allocation in telecommunications, mutual recognition of technical standards, and science and technology cooperation. Some agreements—fisheries or educational exchanges, for instance—can help to maintain good ties and mutual understanding with certain countries, while multilateral agreements such as those related to the environment or cultural diversity also have implications for trade and commerce. And since modern commerce typically involves the movement of people, from managers to researchers, support focused on the individual (e.g. consular services, academic exchange programs) is increasingly relevant to the needs of business.

Agreements are not pursued for the sake simply of having them; they are intended to respond to particular needs to harmonise, facilitate or regulate commercial transactions which arise naturally between countries and companies. And just as the growth and development

of these commercial relationships reflect the particular nature of the countries involved, so too must the Government's approach to foster these relationships.

LATIN AMERICA AND THE CARIBBEAN

Canadians have many historical, cultural and personal ties to Central and South America and the Caribbean. The development of regional trade and market groupings has driven Canadian companies—already active in resource sectors—to seek new opportunities in the region. Trade and investment ties with the Americas are a significant element in Canada's commerce strategy, especially as Brazil's powerful economy grows and diversifies.

Canadian companies have long been present in the region, but in limited numbers. NAFTA's success has helped inspire additional Canadian exporters and investors to venture further south, and the free trade agreements that Canada has signed with Chile and Costa Rica have accelerated this trend. But we are still missing opportunities that our neighbours are seizing. Mexico is highly integrated into these economies, and the United States has recognized new opportunities in the Caribbean basin and Central America. Canada needs to keep pace, or our businesses will lose ground to competitors in these growing regional value chains.

The Government will step up its commercial efforts in support of Canadian business. The Government already maintains a full suite of business development services in Latin America and the Caribbean, and we conduct high-profile trade missions such as the one to Brazil in November 2004. Free trade negotiations with the Central America Four countries—El Salvador, Guatemala, Honduras and Nicaragua—are well advanced and we hope to conclude an agreement in the near future. We will work to implement the Prime Minister's commitment to undertake free trade negotiations with the 15 members of the Caribbean Community (CARICOM). We are also exploring the possibility of negotiations with the Dominican Republic and the five nations of the Andean Community: Bolivia, Colombia, Ecuador, Peru and Venezuela.

Free Trade Area of the Americas

Our interests in Latin America and the Caribbean depend on the peace, political stability and economic prosperity of the region. For this reason, Canada's top trade policy objective in the region remains the Free Trade Area of the Americas (FTAA), which involves the 34 democratic countries of the hemisphere and is an integral part of the broader Summit of the Americas process. The FTAA would build on Canada's existing free trade ties and holds the potential to create the world's largest free trade area—more than 845 million people and a combined gross domestic product of \$18.8 trillion. We support the continuing efforts of the U.S. and Brazilian co-chairs of the FTAA process to resolve the issues outstanding and resume negotiations.

Commercial Relations with Brazil

Brazil exerts substantial economic and political influence throughout South America, and is a leading member of the World Trade Organization. Brazil holds special interest for Canada, both because of its strong anchor role with Argentina, Uruguay and Paraguay in Mercosur and because its fastest growing sectors are areas in which Canada excels. But our overall relationship with Brazil has suffered in recent years as a result of disputes in certain areas, notably regional aircraft. Canada must have a stable, robust relationship with Brazil—one that can overcome the inevitable difficulties of the increased competition between our economies, and that can develop new areas of collaboration and commercial advantage. In this regard, we will continue to negotiate an agreement with Brazil respecting regional aircraft subsidies.

Brazil and Canada enjoy mutually advantageous two-way investments. Canada's direct investment in Brazil has increased 280% in a decade; from \$2 billion in 1993 to \$7.6 billion in 2003 (roughly 10 times Brazil's investment in Canada). Canadian companies are increasingly taking a long-term view of Brazil and examining investment and partnering options as effective ways to penetrate the market. Export Development Canada has opened two new offices in the country, and we have added trade commissioners to assist Canadian businesses. We will continue to encourage more Brazilian investment here in Canada.

Recently Canada and Brazil have undertaken to rebuild our relations with common economic and social goals. In November 2004 the Prime Minister and President da Silva agreed "to promote the expansion of trade relations between Mercosur and Canada, by negotiating enhanced market access in the areas of goods, services and investment, in the context of the creation of a future FTAA." The leaders' joint declaration demonstrates that Canada and Brazil (along with its Mercosur partners) are committed to helping the FTAA negotiations move forward. The governments will also strengthen cooperation in education and R&D. High-level political contact and trade and investment missions will play a major part in building this relationship. Our overall objective is to surpass \$2 billion in exports to Brazil by 2010.

The Government will:

- following the Prime Minister's agreement with President da Silva, pursue market access negotiations with Mercosur in the context of the Free Trade Area of the Americas;
- devote special attention to building a stable, robust relationship with Brazil;
- pursue the conclusion of a free trade agreement with the Central America Four—El Salvador, Guatemala, Honduras and Nicaragua; and
- work to implement the Prime Minister's commitment to launch free trade negotiations with the Caribbean Community by the end of 2005.

ASIA

During the past two decades, Asia has come to occupy a central role in global commerce. Asian economies have become significant participants in world trade, finance and investment, and more sophisticated manufacturers of consumer and capital goods. The pace of growth and the region's rapid integration into the global economy make the region vital to Canada's economic success.

Canada has tapped into East Asian value chains directly through two-way investment and indirectly through North American supply chains. This has meant greater choice for Canadian consumers and greater access to low-cost inputs, improving our competitiveness. At the

same time, it has also given rise to strong Asian competitors, both at home and in our export markets. Today, few Canadian companies can expect to succeed without an Asia strategy.

Despite these realities, Canada's engagement within the region has lagged behind the pace of economic growth in Asia, and behind our competitors' performance. As a destination of direct goods exports, the region accounts for less than 10% of our global total. Canada's share of regional imports has scarcely risen above 2% in the past 15 years, and Asia consistently represents less than 2% of our inbound and outbound direct investment. This is a situation that must change.

Helping Canadian Business Succeed

Success in Asia depends on aligning our domestic and international efforts to strengthen wealth creation and build competitiveness. Our strategies for the region will capitalize on our assets—from capital and skilled labour to our coveted natural-resource endowments—to create sustainable long-term relationships. Business and government efforts must be better coordinated to take advantage of the region's huge demand and production opportunities (especially in physical and financial infrastructure), and to influence the evolution of the underlying rules and relationships.

Adapting Canadian infrastructure to match Asian opportunities is a major task of the federal government, in partnership with the provinces, territories and municipalities. We will support the Asia-Pacific Gateway strategy announced by the government of British Columbia in February 2005 to create a competitive and full-service corridor between Asia and North America. This is a major undertaking to capitalize on our west-coast ports and airports, and the road and rail links between them and North American markets. Likewise, we are pursuing other means to bring Canada closer to Asia. We are improving air services agreements with China and India, and to take advantage of Canada and China's agreement regarding making Canada an Approved Destination Status for Chinese travellers, we are reviewing our air services policy and infrastructure to increase the frequency of air connections.

Canada will pursue targeted strategic trade and investment agreements in the region, such as negotiating foreign investment promotion and protection agreements with key Asian partners. Canada's role in the Asia Pacific Economic Cooperation (APEC) forum offers us the opportunity to engage senior Asian leaders on bilateral and regional issues, as do networks such as the APEC Business Advisory Council and Study Centres. Businesses also need sectoral approaches that deepen cooperation in sectors where Canadian firms have an edge. During the Prime Minister's visit to China in January 2005, for example, Mr. Martin and Premier Wen signed a memorandum of understanding on energy cooperation to establish a Canada-China partnership in clean energy development. We are pursuing an arrangement to develop science and technology collaboration with India to give Canadians a mutually advantageous access point to India's burgeoning knowledge-intensive sector, and a solid basis for future trade and investment growth.

Client-oriented support for export promotion will remain paramount. The Government will consult on how new programming, could improve delivery of specialized advice and assistance to business—inward and outward investors, those seeking R&D partners or licensing arrangements, and those in search of competitively priced inputs. The Government will adjust its business programming to reflect the new realities of global and regional value chains, and the new role of long-term creative alliances in finance, investment and knowledge. The Government will also increase significantly informative messaging to businesses and stakeholders regarding the region's opportunities and challenges.

The Government is making a sustained effort to reach out to Canadian communities, in particular the cross-cultural and entrepreneurial capacity of our Asian ethnocultural communities. The Government is also working closely with business organizations, national and sectoral organizations, and centres of learning and research such as the Asia-Pacific Foundation.

Such widespread public consultations are critical to guide priorities and programming. Accordingly, a consultation process began in early 2004 on emerging opportunities, including those in China and India, with a variety of stakeholders, including provinces and

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territories, business associations, academics and civil society. The Government will continue to work in partnership with stakeholders to ensure that our strategy contributes to the realization of real opportunities in the region and around the world.

In Asia there is a premium on tailored approaches: one size does not fit all, whether by market or by sector. In addition to more general efforts targeting the entire region, we will also leverage our assets in the following countries that are critical to regional success.

China

Canada enjoys strong and deep ties with China. Today, there are over one million Canadians of Chinese descent. Our relationship is nurtured through extensive educational ties and strengthened by the individual experiences of Canadian tourists in China and by the over 100,000 Chinese who visited this country in 2004.

China has emerged as the world's fourth-largest trader and second-largest destination of foreign direct investment. The country has become an economic power with impressive global reach, averaging over 9% growth in real GDP for each year of the past decade, fuelling enormous demand for inputs and sophisticated consumer imports, as well as access to world markets. The sheer scale of change in China affects worldwide supply and demand. The country's manufacturing productivity has driven down the world price of many goods, while Chinese-dominated Asian demand has substantially shifted energy and other commodity prices upward, a dynamic that will mark world trade in resource-based commodities for decades. While China's remarkable strength as a manufacturing base has riveted attention worldwide, it is also training knowledge workers with scientific, engineering, medical and technical skills at a pace that is already showing in the increasing sophistication and quality of its manufacturing.

China has huge regional economies clustered on the coast (such as Hong Kong, gateway to South China) and in a limited number of inland regions. On a sectoral basis, remarkable and diverse opportunities exist in agri-food, resources and related technology and services, engineering and construction, information, telecommunications, environmental and clean energy

technologies, and educational services. The Government will actively work with Canadian companies to make the most of these realities. Alliances with Asian partners will be important in preserving our competitive standing with those U.S. and other foreign-controlled enterprises that already have such partners operating out of China. Moreover, growing Chinese demand is not entirely about inputs or current consumption. China's needs for infrastructure of all kinds, whether in energy, transportation or financial services, can only be met from outside.

We will use existing and new channels to advance official relations with China. A Strategic Working Group supports regular bilateral consultation on important political and economic issues, and stronger exchange and coordination on broader issues of common concern. High-level events such as the January 2005 Canada Trade Mission to Shanghai, Beijing and Hong Kong, led by the International Trade Minister, also raise Canada's profile, enabling significant progress on bilateral issues and allowing Canadian companies to clinch commercial agreements with Chinese partners.

There are already over 1,900 Canadian companies active in China, 400 of them through local offices. The Government supports them with more trade officials than in any other single market except the United States, in partnership with the Canada-China Business Council. We have also relaunched negotiations with China on a foreign investment promotion and protection agreement to improve the climate for Canadian investors. Through this and other initiatives, we aim to double the level of Canada's trade and investment relationship with China by 2010.

Japan

Japan remains the region's largest economy by a substantial margin, the most important investor in Asia, its financial hub, its leading industrial power, and a world leader in R&D. Japan is Canada's second largest export market and our largest source of investment from Asia. Canada's longstanding participation in the Japanese market gives us a strategic partner in accessing regional trade and investment markets: no lasting success can be achieved in China and other dynamic Asian economies without involving

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Japan. Prime Minister Martin and Prime Minister Koizumi therefore agreed in January 2005 to develop a new Canada-Japan Economic Framework to address strategic economic priorities and emerging challenges and opportunities.

Canada and Japan will promote economic cooperation through policy and business development initiatives. We will focus on enhancing our mutual capacities in innovation and in knowledge-based industries through regulatory cooperation, science and technology cooperation and investment promotion. A key component of the framework is a joint study on the benefits and costs of further promotion of trade and investment and other cooperative issues. The Government will work aggressively with Japan to complete this innovative framework, which will serve as a stepping stone to additional bilateral efforts and to realizing the full potential of our economic relationship with Japan.

Republic of Korea

The third key member of the northeast Asian growth triangle is South Korea, with whom we already have a special partnership. Our relationship is strong, as is proven by the fact that South Korea is now the leading source of foreign students in our educational institutions. Prime Minister Martin and President Roh agreed in November 2004 that we would begin exploratory talks on a potential free trade agreement, a clear indication that we are ready to see our relationship grow and deepen.

While free trade would create pressure in certain Canadian sectors, notably shipbuilding, it would also present opportunities for traditional Canadian exports, value-added manufacturing and service sectors such as finance, insurance, and educational services and investment.

As in Japan and China, the Government will assist Canadian businesses to respond nimbly to market developments by providing them with the practical support that will allow them to build long-term relationships with confidence—direct air links, favourable market access, and intellectual property and investment protection.

India

India and Canada share a mutual commitment to democracy and the rule of law, and to the better integration of developing countries into the multilateral trading system. We also share a language, a connection through our Commonwealth heritage, and similarities in our legal, financial and political systems. More than 700,000 people of Indian descent live, work and study in Canada, of whom over 300,000 were born in India. Despite these strengths, our relationship with India has underperformed in the past.

The entrepreneurial skills and educational and scientific links of our Indo-Canadian community, however, coupled with reforms taking place in the Indian economy, are giving us a new edge on which we are now starting to capitalize. With market liberalization continuing and infrastructure development an ever-present priority, India offers Canadians more and more opportunities in biotechnology and health, information and communications technology, engineering and construction, oil and gas, energy, and environmental and financial services. India is also a very important potential partner in the areas of science, technology and education: it is consciously building its economic future on the skills of its people, seeking out strategic partners to further its development. Unlike East Asia, however, India is not yet a major player in supply chains. Its size and emerging outward orientation make it an awakening giant that will rival China in the foreseeable future.

VALUE CHAINS IN EAST ASIA

The global value chains that characterize modern commerce are most evident in East Asia. Manufacturing and knowledge-based services—particularly in computers and telecommunications, consumer electronics, and automotive design and assembly—have been distributed across the countries of East and Southeast Asia since the 1980s, originally by Japanese investment and logistics.

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The growth of the Indian middle class is also redefining opportunities for Canadians, from producers of consumer goods, to our tourism industry, to our post-secondary institutions. In January, the Prime Ministers of Canada and India issued a joint declaration to build upon the substantial progress in the bilateral partnership achieved during the last year and to enhance the architecture of the Canada-India partnership. Responding to these opportunities, and building on the Prime Minister's visit in January 2005, the Minister of International Trade led a Canada Trade Mission to India in April 2005 which included a significant focus on science and technology. Canadian companies pursued opportunities in a range of areas, including transportation, energy and information and communications technology infrastructure, agri-food, and financial services. Our aim is to surpass \$2 billion in exports to India by 2010.

To this end, the Government has restarted discussions with India toward a foreign investment promotion and protection agreement and has made significant progress toward concluding a science and technology cooperation agreement with India to support partnership building in the very near future. To support this initiative, the Government will dedicate funding received in the 2005 Budget to establish a platform program to promote collaborative research between Canadian and Indian scientists and technologists in a variety of areas, leading to the development, production and commercialization of new technologies. This will further Canada's penetration into new international markets, creating Canadian jobs, fuelling industrial investment and strengthening domestic science and technology through access to global research capacities.

Other Asian Partners

Many of the smaller emerging economic powers that are members of the Association of Southeast Asian Nations (ASEAN) have shown similar trends to those in China and South Korea. They are taking part in regional and global economic integration, and investing in their people and their legal and physical infrastructure. In particular, Singapore, with which the Government is negotiating a free trade agreement, remains a regional hub for banking, wealth management and insurance services, and Canadian financial institutions are present in Indonesia and other countries of the region. Vietnam, too, is emerging as a major international player. Canada is using Vietnam's WTO accession negotiations not only to ensure it has a legal system compatible with the development of long-term relations (e.g. through respect for intellectual property) but also to pursue specific interests in goods and services trade. At the same time, the tragic tsunami of December 2004 was only the most recent in a series of reminders that many of these countries are still developing and vulnerable—and that our political, security and humanitarian interests are engaged there too.

The Government will:

- negotiate high-quality foreign investment promotion and protection agreements with China and India;
- develop a new Canada-Japan Economic Framework to improve economic relations in areas such as regulatory cooperation and investment promotion, and as a stepping stone to additional bilateral efforts;

EXCHANGING SCIENCE AND TECHNOLOGY WITH INDIA: A SUCCESS STORY

The Indian Institute of Technology (IIT) and the University of Waterloo aim to set up a solid science and technology exchange pipeline between India and Canada. To this end, they have signed agreements since 1998 covering student and faculty exchanges and joint research programs in electronics engineering, photonics and bio-sciences. "India is a technology giant, and institutes like the IIT are among the best in the world," says Amit Chakma, Waterloo's Vice-President, Academic. "These ventures will benefit the private sector and universities in both countries." Canada's Technology Triangle Group—working closely with Canada's trade commissioners at the consulate in Mumbai—has been instrumental in developing the partnerships.

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- pursue discussions with South Korea about negotiating a free trade agreement;
- support British Columbia's Asia-Pacific Gateway strategy to ensure that we have the domestic infrastructure required to expand trade and other commercial links with Asia;
- negotiate expanded air services agreements with China and India to strengthen commercial ties and improve tourism and educational links;
- explore new means to support Canadian firms in finding long-term business in Asia and managing the complexity and risk of entering Asian markets;
- exceed \$2 billion in exports to India and double the level of our economic exchanges with China by 2010;
- support science and technology collaboration by Canadian companies with partners throughout Asia through initiatives such as formal agreements and direct services to business; and
- significantly increase services to inform and educate Canadian companies about regional opportunities in Asia and how best to pursue them.

EUROPE

Our shared history and culture still shape our relationship with the European Union, our second-largest trade, investment and innovation partner—roughly equal to all the Asia-Pacific region put together. While we interact directly and often with the European Union, it is not synonymous with the broader European economic space: other countries, notably Switzerland and Norway, share the continent, while Europe's "near abroad" of the former Soviet countries, the Middle East and North Africa is also increasingly tied into Europe-centred value chains. The federal government's strategy recognizes this reality and builds on our strengths.

The European Union

The European Union is the world's largest single market, with a population of over 450 million and, following its expansion in central and southern Europe in 2004, a gross domestic product that rivals that of the

United States. Its member state governments are focused on creating a European future, and its rich and sophisticated business sector is the leading global investor and one of its leading sources of technology and innovation. The countries of the EU shape global and regional commerce, presenting Canada with intense competition and significant concerns as we work to keep our relationship up to date.

The Government is advancing stronger Canada-EU ties through many channels. It is guided at the highest levels through summits between the Prime Minister, the President of the EU Commission, and the President in Office of the European Union. In March 2004 Prime Minister Martin hosted the summit that re-energized the relationship through the launch of the Canada-EU Partnership Agenda; this agenda provides for bilateral cooperation on security, global economic prosperity and other major issues. To improve our commercial links and support the Canadian business community, we are designing a forward-looking Trade and Investment Enhancement Agreement (TIEA) with the European Union. The agreement will support economic growth and improvements in productivity, and has specific provisions aimed at facilitating bilateral trade, investment and technology transfer between Canadian and European Union SMEs.

The TIEA will move beyond traditional market access considerations, anticipating future challenges such as the need for greater cooperation on regulatory issues. The Government has agreed to develop a voluntary framework for regulatory cooperation with the EU to enhance the use of best practices, improve the effectiveness of regulatory initiatives and facilitate trade and investment. In the realm of science, technology and innovation, the Government is focused on intensifying our cooperation by organizing thematic workshops to explore new collaborations and partnerships. Our association with public and private EU research programs—as partners, subcontractors and informal network players—has confirmed Canada's reputation as home to cutting-edge research partners. Indeed, Canada-EU trade in R&D services, patents and licensing fees exceeded \$2.1 billion in 2002.

This burgeoning relationship with EU institutions does not, however, encompass our full relationship with Europe. Canadian businesses export to Britain, France,

MARKETS AND OPPORTUNITIES ABROAD

Italy and Poland—not Europe as an entity. They seek investments and technology in Spain, Germany, Sweden and Ireland, in sectors as diverse as aerospace and processed foods. In fact, Canadian companies established in the European Union sell four times as much there as they export from Canada. And within individual countries there is often greater focus on cities, regions and sectors. Distinct regions within the European Union (e.g. the Nordic countries) require specific strategies, as do science parks (e.g. Sophia Antipolis on the French Riviera), or distinct poles of growth such as the “four motors” of Lombardy, Catalonia, Rhône-Alpes and Baden-Württemberg.

In support of these business strategies, we will devote more effort to promoting and encouraging business-to-business contacts. We will also support and encourage the facilitative role of the Canada-Europe Round Table as a valuable forum for our business community on both sides of the Atlantic.

Our European engagement must broaden beyond Brussels and national capitals, to include individual markets, communities and sectors. Our trade resources and activities must be better aligned with Canadian business interests throughout the European Union.

While we work to maintain and improve Canada-EU relations, we do so fully cognizant of potential impacts on our relationship with the United States. We must ensure that U.S. and European approaches to commercial issues, especially in the area of standards and regulations, are compatible. Because Canadian companies are highly active in both of these key markets, we must avoid situations in which compliance with the approach of one partner will mean a loss of opportunities in the second market. The U.S.-EU dynamic is also highly relevant to our current goal of positioning Canada aggressively as the gateway for European companies seeking to establish themselves in North America.

We will monitor other developments closely. The current EU-U.S. discussions on civilian air transport, for instance, could provide the first step toward a more open trilateral regime that would provide more options to international travellers and shippers. Outside our ongoing close collaboration at the WTO, civilian air transport is one of the few areas where trilateral

governmental action is contemplated. In the defence sector, by contrast, we must react more strategically to nationally oriented procurement policies that encourage reciprocal investments that often cut out Canadian suppliers.

Other European Partners

Outside the European Union, Canada has strong investment and trade links to the four members of the European Free Trade Association: Switzerland, Norway, Iceland and Liechtenstein. Their modern economies offer state-of-the-art technology and significant market potential for Canadian companies, especially in the energy and natural-resource-based sectors. To support Canadian businesses, we will continue to pursue a free trade agreement with the Association, which would provide a strategic platform for expanding our commercial ties in the Nordic countries and Central Europe in particular, and the EU in general.

The Government will:

- negotiate a trade and investment enhancement agreement with the European Union;
- develop a voluntary framework agreement for regulatory cooperation with the EU to enhance the use of best practices;
- pursue the conclusion of free trade negotiations with the four European Free Trade Association countries; and
- conduct a study of actual and potential priority European commercial centres to support more flexible and nimble business services on the continent (e.g. new models of trade commissioner representation).

OTHER KEY MARKETS

While the Government focuses on Canada’s largest economic relationships, it will not neglect other commercially significant markets that may be crucial to individual Canadian firms’ or sectors’ global strategies.

Australia and New Zealand

Australia and New Zealand are increasingly important strategic players in Asia-Pacific value chains. New Zealand is the first developed country to explore free trade with China. Australia has already achieved free trade with the United States. Not only does this further Australia's natural economic interests in the world's biggest importer, but it fits very well into its strategic pursuit of Asian (especially Japanese) investment in sectors that will benefit from this new access. Both countries have free trade agreements with some ASEAN countries (e.g. Singapore and Thailand), and are jointly negotiating a regional free trade agreement with all ASEAN countries. Our flourishing two-way trade (around \$4 billion with the two partners in 2004), and our developing investment relationship, promise to expand not only in traditional agricultural or resource-based sectors but also in high-tech areas such as the biotech, communications and medical equipment sectors, where we can leverage their positioning in East Asia. The Government is actively pursuing Canadian interests in both countries through the WTO and our trade team has streamlined operations to provide "one-stop-shopping" for Canadian exporters looking to do business in the region.

Russia

Russia has tremendous stores of physical and human capital but is still struggling to cast off the remnants of Soviet-era economic mismanagement. Despite this, it holds particular promise for Canadian companies, which have invested in natural resources, infrastructure and industrial development, and in the high technology and agri-food sectors. In relation to the Northern Dimension of Canada's Foreign Policy, Russia is our most important bilateral partner, and is central to all circumpolar initiatives. Cooperation with Russia on Arctic economic development is a priority area of mutual benefit.

To build for the future, the Government is participating actively in Russia's negotiations to accede to the WTO—both to advance specific market access interests for our goods and services, and to seal the wholesale modernization of Russian economic law. At the company level, businesses receive financing support from Export Development Canada, whose annual

business volume in Russia has been multiplying. Investment, protected through our investment protection agreement and programming, is particularly important: resource-hungry Asian countries such as China and Japan are ready customers for Canadian companies and Canadian-Russian joint ventures exploiting Siberia's vast natural resources.

The Middle East and North Africa

Canadian business has paid less attention to the opportunities in the Middle East than have their American or European competitors. Nevertheless, there are good prospects for long-term relationships. The nations of the Gulf Cooperation Council—Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Oman and Bahrain—are the most prosperous grouping in the Middle East, with a collective economy that is one of the fastest growing in the world, and increasingly diversified. This trend is expanding Canadian business prospects, beginning with petrochemicals but moving far beyond. In particular, regional hubs are deliberately positioning themselves as strategic entry points to Middle Eastern, South Asian and East African markets, a market of approximately 2 billion. Canada is using the WTO (including accession negotiations with Saudi Arabia) and high-level visits to position our commercial interests to advantage.

Assisted by a free trade agreement, Canada enjoys a robust trading relationship with Israel. The provisions of this agreement have been extended to the Palestinian Authority (PA) and the Government supports the plans and priorities of the PA in the areas of security, governance and the economy. The Government is studying how products from the Israeli settlements are treated under this agreement. Canadian commercial ties to the region are also enhanced through the Canada-Israel Industrial Research and Development Foundation (CIIRDF), which promotes collaborative R&D between firms in both countries. We will continue our substantive commercial engagement in the region by seeking to renew our support for the CIIRDF. We will seek out new opportunities in our fast-growing trade with Jordan, and promote the expansion of commerce with Lebanon through support for its accession to the WTO.

North African regional markets present interesting opportunities given their rapidly growing populations

MARKETS AND OPPORTUNITIES ABROAD

and location as offshore manufacturing centres for Western Europe. Although developments such as the U.S.-Morocco free trade agreement are heightening competition, North Africa offers Canadian companies future prospects for food and consumer products as well as infrastructure goods and services. Besides negotiating with Algeria and Libya at the WTO, which they seek to join, the Government is offering direct high-level support to Canadian business in the region. The Prime Minister visited Libya in December 2004 to support Canadian companies engaged in civil engineering, aerospace, oil and gas, telecommunications and other promising sectors in that country. The Parliamentary Secretary to the Minister of International Trade led a trade mission to the region in the same month, in conjunction with the Canada-Arab Business Council to pursue opportunities in these sectors and in education and training.

We remain open to more formal rules-based trading and investment relationships as opportunities present themselves, including specific and meaningful accords in areas such as investment, regulatory cooperation, travel and visas, taxation and air services.

The Government will:

- enter into a new agreement, if possible, for bilateral research collaboration through the Canada-Israel Industrial Research and Development Foundation, and explore options for similar agreements for research and development collaboration in other markets, specifically India and China; and

- pursue more high-level visits to countries with the highest potential for enhanced commercial relationships.

International Commerce and Development

The connections between our commercial strategy and international development are many. We offer one of the most generous market access programs in the world, with duty-free access on most exports from least-developed countries and limited technical restrictions. We are working in the WTO to devise new rules to take account of the interests of developing countries. We are promoting corporate social responsibility, both as good global citizenship and as sound business practice. We are extending trade-related technical assistance that complements broader support for good governance and the rule of law, from best practices in customs administrations through to veterinary inspection models. And we are stimulating African and foreign investment through the creation of the Canada Investment Fund for Africa, a joint public-private sector fund designed to provide risk capital for private investments in Africa that generate growth. Its aim is to channel at least \$200 million in additional investment into Africa, half from the Government and half from private sector partners. The fund, which will start up later this year, will operate in a commercially viable manner and will demonstrate good corporate social responsibility practices in all its operations.

CORPORATE SOCIAL RESPONSIBILITY

Companies that take corporate social responsibility seriously can improve their reputations and operational efficiency, while reducing their risk exposure and encouraging loyalty and innovation. Overall, they are more likely to be seen as a good investment and as a company of choice by investors, employees, customers, regulators, and joint venture partners. There is growing evidence that companies that embrace the essential qualities of CSR generally outperform their counterparts that do not use features of CSR. Canada's Trade Commissioners are actively engaged with Canadian companies in promoting corporate social responsibility around the world.

This document sets out the Government's strategies for meeting the challenges of a rapidly changing world market. Important developments are making the world a smaller, and more open, dynamic and complex place, with implications for our society, economy, security and identity that are explored in all sections of the International Policy Statement. Canada has many strengths, including a private sector that has been quick to adapt to these changes, developing new ways of doing business that transcend national borders, locating specific activities in whatever continent, country or community that makes business sense and organizing themselves around flexible networks and value chains.

In this world, any distinction between a country's domestic economy and the broader global economy is artificial. Domestic decisions affect the international competitiveness of Canadian companies, while competition within our own marketplace is increasingly shaped outside our borders. Prosperity rests on the twin pillars of global economic competitiveness and robust international engagement. The Government's commerce strategy incorporates both these areas to create sustainable economic advantages for Canada.

While Canadian business is active globally, there are clear priorities in our commercial relationships and in the needs of business. These dictate a focus on our North American relationships—not just with the United States, anchor of our prosperity, but increasingly with Mexico; on our relationships with other key drivers of global innovation and investment, notably Japan and the countries of the EU; and on today's new economic powers, Brazil, India, China and their partners in global value chains. Our engagement with countries outside this core focus must increasingly take account of how they advance our principal interests, whether through their own strategic links (e.g. between Australia and New Zealand and East Asia) or through their future economic power (e.g. Russia, and the Gulf countries).

To get the most out of these relationships, the Government must get the domestic business climate right, ensuring that Canada remains an investment location of choice and a competitive player in the global

economy. This is integral to the Government's overall economic strategy. It must also ensure that the conditions are right for sustainable, mutually advantageous commercial relationships, built on solid political relations between governments, reliable multilateral and bilateral trade and investment rules, and innovative non-governmental initiatives in numerous areas such as R&D and education. And, to give our businesses the edge they need to be competitive in trade, investment or any other form of international business, the Government must intervene in precise, targeted ways.

It will take sustained attention to the instruments of economic and commercial policy to pursue this strategy. We must leverage our advantages to ensure we remain a location of choice for modern business. We are in a race with many countries in this respect—one we cannot afford to lose. Above all, we must apply the Government's assets in the right way, with the right partners, at the right time, and in the right places—from trade negotiations to promoting strategic two-way investment, from government-to-government dealings at the highest levels to promoting networks of knowledge and influence spanning provinces, territories, business, academe and civil society. We will face choices as we pursue our strategy. The Government is committed to working with all Canadians in making these choices in our best interests as we meet the challenges of today and secure our prosperity for tomorrow.

To deliver on the International Policy Statement, the Government has to have the right foreign policy and international commerce functions in place. We need to have the tools to deliver foreign policy that is coherent across government and fully represents Canadian interests abroad. Canada's international commerce strategy has to be able to get both the domestic business climate and our international economic relationships right and provide the services that Canadian businesses need. To this end, the Government will establish an advisory and consultative process to consider how this can best be achieved, in light of issues raised in Parliament and by stakeholders.