

## Canada's International Trade and Investment Priorities

2006

Canada has tremendous opportunities to enhance and expand its trade and investment relationships on the basis of bilateral, regional and multilateral agreements. Historically, Canada has worked diligently in multilateral forums and these rules-based agreements are essential to ensure the competitiveness of mid-sized, trade dependant countries such as Canada.

However, given the changing dynamics of world trade negotiations, Canada needs to set clear priorities about where to put time and effort in order to make the most of negotiations and to bring maximum value to Canada. There is no denying the importance of trade to Canadian economic wealth. Canada has the highest trade/GDP ratio amongst the G-8, close to 40%. To sustain this pattern, continued access to markets remains essential. Trade policy must to be an important policy priority for the country.

At this stage in Canadian trade policy, it is appropriate to assess where Canadian trade priorities lie. A quick assessment shows that:

- a) Negotiations at the World Trade Organization (WTO), a major priority for Canada, have been officially suspended due to key members' inability to offer the concessions needed to achieve a balanced and ambitious outcome. This setback will inhibit Canada's ability to grow in key export markets and continue to cause unneeded harm to many important Canadian industries e.g. services providers and grain farmers. Given that multilateral trade negotiations have a history of impasses and suspensions that are overcome in time, it is important to maintain WTO negotiations as a high priority for market liberalization.
- b) Discussions towards a Free Trade Area of the Americas (FTAA) are comatose, with two key countries (US and Brazil) unable to agree on various negotiating modalities and priorities. This initiative is now all but defunct.
- c) Canada and the EU have been engaged in negotiations towards a Trade and Investment Enhancement Agreement (TIEA). Negotiations are at a standstill while the WTO Doha Development Rounds runs its course, and given the current status of the WTO negotiations, the future of the TIEA remains unclear.
- d) Canada is engaged with Korea on a possible Canada-Korea Free Trade Agreement. Assuming an agreement can be reached, this would mark Canada's first successful completion of an FTA in many years.
- e) Canada is working with Japan on an economic framework which looks to build on trade liberalization and business promotion between the two countries.
- f) Other bilateral agreements with either individual countries or groups of countries include negotiations with the Central American countries (Guatemala, El Salvador, Honduras, and Nicaragua), Singapore and EFTA (European Free Trade Association, comprising Norway, Switzerland, Iceland and Lichtenstein). None of these have been concluded for a variety of reasons.
- g) Talks with the CARICOM nations of the Caribbean, the Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) and the Dominican Republic have been ongoing but appear to be making little headway.
- h) Canada is negotiating FIPAs (Foreign Investment Protection and Promotion Agreements) with China, India and Peru. Negotiations on each are progressing.

In the wake of the suspension in WTO negotiations and uncertainty about whether or when a substantive outcome is possible, countries are assessing their options for future trade

liberalization. Canada must as well. The US, Australia and many other countries are diligently working to complete bilateral agreements that will serve their vested interests. Canada's current path is that we risk other countries gaining access to 'our' US market without compensating with increased access to fast growing emerging markets.

What should Canada's approach be?

In assessing Canada's trade priorities, there is a clear order of importance. Without question, Canada's relationship with the United States has long been, and must remain, Canada's top priority. Over 85% of Canada's merchandise exports go to the United States. The two economies are inextricably linked and will continue to be. As a result, Canada must devote sizeable resources and energy to sustain this relationship and expand it in ways that further benefit Canadians.

By extension, the NAFTA relationship includes the relationship with Mexico. Given the increasingly integrated economies of the three North American partners, dealing with the future of North American competitiveness and making progress through the Security and Prosperity Partnership (SPP) is essential.

Moving beyond the North American priority, the other central pillar of Canadian international trade policy is the World Trade Organization (WTO) and the associated system of international trade rules. Our economic prosperity, as well as the future of global trade cooperation, is bolstered by the existence of comprehensive and well-functioning multilateral rules and disciplines. It is essential that Canada and other WTO members continue to endorse and make use of the WTO as the key multilateral institution to administer the framework of rules for global commerce. To restart negotiations and to achieve a successful completion of the Round will require all countries, including Canada, to show greater flexibility in their politically sensitive sectors.

With respect to bilateral and regional negotiations, it is critical that the Canadian government, in consultation with the business community, identify priority international markets and develop sound strategies that make use of available resources in the most effective manner.

The Chamber believes that current FIPA negotiations with China and India are extremely important in order to allow Canadian business to capitalize on these high growth markets. Completion of these agreements would provide more certainty and predictability for Canadian business, and thus create more of an incentive to do business. It is important that Canada successfully negotiate additional FIPAs for key markets.

China and India are essential for Canada's near-term and long-term growth. As we look to broaden trade relationships with other jurisdictions, it is critical that we focus resources on those booming economies in Asia-Pacific. It is therefore essential that Canada has a proactive, strong and constructive relationship with both countries.

Current talks with Korea should also be a priority for Canada, providing a balanced outcome is achievable. Korea is one of Canada's largest trading partners and offers an attractive market for a number of Canada goods and services.

It is also worth noting that Europe remains a major trade and investment partner and, regardless of current status of the TIEA negotiations, additional economic gain can be attained through expanded trade in goods, services and investment with Europe.

Finally, it is important to highlight that both government and the business community have limits to their capacity to manage a large number of negotiations. We must be strategic and selective, and not be reticent to switch course if required.

## **Recommendations**

That the federal government:

1. Keep Canada-US and North America as our top bilateral trade policy priority.
2. Work to resurrect and ensure maximum results from the current Doha Round of WTO negotiations and not inhibit progress through a lack of flexibility in our sensitive sectors.
3. Strive to achieve a substantive outcome in FIPA negotiations with China, India and Peru and expand FIPA efforts to additional markets.
4. Undertake a high-level discussion to clarify key policy directions with China and India and designate a senior level individual with specific responsibilities to oversee these discussions and to coordinate action items that arise.
5. Continue to work on CA4 and a Canada-Korea FTA to gain greater reciprocal access for those countries and seek to move the economic framework talks with Japan to areas where concrete market access gains can be reached.
6. Building on existing business linkages, work to invigorate Canada-EU discussion to explore ways to maximize investment opportunities and trade in services and goods with Europe.
7. Assess and adjust Canadian negotiating strategies as required taking into account the resources available to negotiate effectively additional free trade / investment agreements (e.g., for regional/bilateral negotiations and FIPAs). Such negotiations should only be undertaken where substantive potential outcomes and/or strategic interests can be identified.
8. Seek the advice of the business community on Canadian trade priorities with other countries and regions in the context of the changing trade policy environment and business realities.