

## CHAPTER 2: *Canada's Role in the Global Economy*



**F**EW NATIONS HAVE a greater stake in the global economy than Canada. The country has long been committed to an open international economy. It was one of the original signatories of the General Agreement on Tariffs and Trade (GATT) in 1947 and has remained a strong advocate of reducing trade barriers and adopting transparent trading practices through multilateral negotiations. Consistent with this position, Canada played a prominent role in the recent Uruguay Round of international trade negotiations and in the creation of the new World Trade Organization (WTO).

Canada has also pursued regional free trade arrangements. It entered into a bilateral free trade agreement with the United States in 1989. Three years later, Mexico joined in what became the North American Free Trade Agreement (NAFTA). Canada strongly supports the expansion of the NAFTA to other countries.

With a domestic market of just under 30 million people, Canada's long-standing interest in securing easy access to export markets is only natural. But its interest in international trade is not confined to exports. Canadian consumers and businesses have come to rely on imports to meet their need for a wide range of goods, services and technology.

Trade is not the only dimension of Canada's involvement in the global economy. Foreign investment has long played a pivotal role in the development of the Canadian economy, bringing not only capital, but also technology, expertise and innovation. Since the mid-1980s, the Canadian government has actively sought and encouraged the inflow of foreign direct investment (FDI) into Canada. As part of its undertakings to the WTO, the federal government recently implemented new legislation to ensure that investment from all member countries of the WTO will be treated in the same way as Canada treats investment from its partners in the NAFTA.

Although Canada has global economic interests, and is a member of a number of multilateral and regional economic organizations, its international economic relations are influenced first and foremost by the United States. Roughly three quarters of Canada's trade is with the U.S., and investment flows between the two countries account for the majority of capital moving into and out of Canada.

### **A TRADING NATION**

**C**anada is among the most trade-oriented of all the world's major industrial countries. In 1994, Canada led the G7 countries in terms of total trade as a share of gross domestic product (GDP). Exports and imports of goods taken together were worth the equivalent of 66 percent of Canada's GDP. Three quarters of the country's output of natural resources is now exported, as is more than half of its manufacturing production.

Canada is the seventh largest exporter and eighth largest importer in the world. In 1993, it supplied about four percent of global merchandise exports and purchased a slightly smaller share of imports (see Table 1.1). With a population eleven times the size of Canada's, the U.S. exports only three times as much.