with key partners; and through the negotiation of free trade agreements with the Central America Four (El Salvador, Guatemala, Honduras and Nicaragua), and Singapore. In all cases, the Government's objective will be to ensure that Canada's traders and investors benefit fully from international trade agreements.

International Trade Trends

International trade has been an important engine of economic growth over the centuries, particularly since the end of World War II. Trade also helps bind nation states into mutual dependency that promotes national security objectives. The requirements of trade (rule of law, transparency, enforcement of contracts) are important external disciplines on governments worldwide and reinforce our deeply held democratic principles.

International trade brings greater access to foreign markets while opening up domestic markets to increased competition from abroad. This combination tends to improve efficiency and productivity, as firms seek to adopt new technology and better managerial and organizational practices to improve their competitiveness. Increased economic integration with the global economy also leads to further specialization by firms and countries, which in turn results in lower production costs and lower prices associated with economies of scale.

Trade has led to vast improvements in prosperity in Canada because it provides an efficient scale of operation for many of our corporations that would be unavailable if there were no, or very limited, access to foreign markets. In 2000, the latest year for which we have complete data, Canada marked its ninth consecutive year of steady economic growth with gross domestic product (GDP) growth of 4.4%, keeping Canada in the lead among the G7 countries. Much of that growth in output, in 2000 and in the last decade, originated in the trade sector. Growth in exports accounts for much of the increase in real GDP. As trade has expanded more rapidly than overall growth in GDP, the share of GDP represented by trade has risen from less than 26% for both exports and imports in 1989 to 45.3% for exports and to 40.3% for imports in 2000. Indeed, the Canadian economy is more internationally oriented than any other member of the G7 group of nations.

Canada's exports of goods and services increased 14.6% in 2000. This robust growth was widespread among Canada's provinces and territories and among all major sectors. An increasingly large proportion of job growth has emanated from Canada's foreign trade, as trade has expanded much faster than the overall economy. Between 1988 and 2001, the growth in output in Canada led to the creation of 2.4 million new jobs, an increase equivalent to 19% of total employment in Canada.

Although imports of goods and services also rose strongly in 2000, by 10.5%, Canada enjoyed a record merchandise trade surplus of $59.3 billion. As a result, Canada's current account balance improved markedly to a record surplus of $26.9 billion, or 2.5% of GDP in 2000. This surplus was almost six times the size of the previous record established in 1996. On any given day in 2000, Canada traded an average of $2.5 billion worth of goods and services.

Within this context, our trading relationship with the United States is paramount, as that country accounts for 77.2% of Canada's two-way trade in goods and services — an amount equivalent to $1.9 billion worth of trade daily. Canada and the United States are each other's largest customers and biggest suppliers. Between 1988 and 2000, two-way trade in goods and services between Canada and the United States more than tripled, benefiting from the Canada-U.S. Free Trade Agreement and the North American Free Trade Agreement, as well as from strong GDP growth in both countries for much of the past decade. Other important export destinations include Japan, the United Kingdom, China and Germany.

Over the last 10 years, our exports and imports have been increasingly dominated by manufacturing and other non-resource-based products. In particular, trade in high-tech products has shot up sharply as a percentage of Canada's overall exports and imports. This trend away from dependence on the resource sector is a result of structural changes in the international trading environment, including multilateral tariff reductions negotiated through the WTO.

Investment Trends

Our international orientation is also evident in investment trends. Foreign direct investment flows (FDI), whether inward or outward, are beneficial in a number of ways. Such investment flows tend to strengthen commercial links between the host and