INTRODUCTION

It has been said that Canada is a trading nation, but not a nation of traders.[1] In a post-Cold War world in which economic rivalries are supplanting ideological and military issues in inter-state relations, Canada's lack of a trading culture will increasingly undermine its overall economic prosperity. The lack of a trading culture reflects a tendency of Canadians to rely upon the production of natural resource commodities for export markets as the primary source of wealth for the domestic economy. In today's globalizing world economy, Canadian enterprises need to be more entrepreneurial and the role of governments in supporting participation in the international economy is changing. Canadian governments are facing intense fiscal constraints, which is forcing a reassessment of all programs and services, but governments need to be able to develop new initiatives, or to strengthen priority services, in order to facilitate the transformation of Canada's trading position.

At a time when market opportunities are shifting away from the slower growth economies of North America and Europe to the Asia Pacific region and Latin America, Canada remains relatively highly dependent on the export of natural resources (despite substantially increased manufacturing exports to the United States under the FTA); and its proportion of high value-added merchandise and services exports is the lowest among the major industrialized countries. Canada faces significant challenges in selling higher-value-added goods and services into a broader array of markets. At the same time, with mounting environmental concerns, Canada faces challenges in selling existing resource-based products, such as newsprint, into existing markets.

The pressure to diversify the mix of exports for the Canadian economy comes from several sources. First, there is greater competition among resource producing countries as a large number of developing countries have privatized state enterprises and opened their economies to international trade and investment.

Second, many resource industries in Canada face constraints upon the resource supply. The nature of these constraints vary from the extreme case of the collapse of the cod fishery on the East Coast, to reductions in the timber harvest in order to preserve old growth timber and reduce clearcutting, and to the withdrawal of lands from mineral exploration and development due to environmental concerns.

Third, Canada has a substantial trade surplus with the United States and a trade deficit with the rest of the world while running a large current account deficit because of accumulated international debt. Reduction of government budget deficits will increase net domestic savings and contribute to the reduction of the current account deficit. However, turning the current account deficit around will require significant shifts in the pattern and

[1] The distinction between a trading nation and a nation of traders has been used by a number of commentators, see Michael Hart, *Trade: Why Bother?*, (Ottawa: Centre for Trade Policy and Law, 1992.