

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.