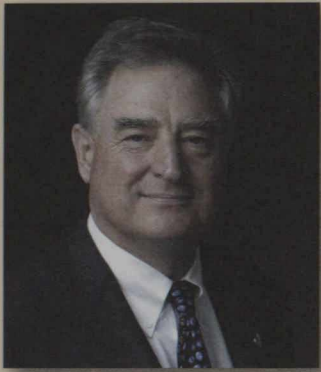


A Message



from

The Honourable David Emerson,

Minister of International Trade and
Minister for the Pacific Gateway and
the Vancouver-Whistler Olympics

As Canada's Minister of International Trade, I am pleased to present *Canada's State of Trade: 2007*. This report provides an overview of Canada's economy in the global context, demonstrating the impact of international economic trends on Canada's trade and investment performance by sector and by region.

This year's edition shows that 2006 was a good year for Canada. Despite a slowing of the U.S. economy and a strong Canadian dollar, our exports reached an all-time high. Stocks of foreign direct investment in Canada and Canadian direct investment abroad also reached record levels. Our gross domestic product (GDP) growth was among the highest of the G7 countries. Unemployment reached a thirty-year low. Canada was the only G7 country to register a budgetary surplus in 2006, and government debt continues to fall. Inflation remains low and stable. This is, by any standard, an impressive performance.

Despite our success, we cannot ignore some fundamental challenges.

Canada's performance in 2006 was largely driven by one sector, natural resources, which was both the main source of our trade surplus and the key force behind the majority of new foreign investments into Canada. As a result, our overall trade surplus continued to shrink, along with our share of global trade and foreign direct investment. Our manufacturing sector continued to feel the impact of a high Canadian dollar, the slowing of the U.S. economy in the second half of last year and increased competition from Asia. And despite some improvements, Canada's productivity continues to lag behind that of our major competitors.

On the global front, we are being outpaced by our competitors: not just by fast-growing emerging economies like China and India, but also by our more traditional competitors such as the U.S. and Europe, who are aggressively pursuing international policies to strengthen their competitive advantage.

Rather than rest on current successes, Canada must take on this challenge and plan for what lies ahead.

Canada's New Government is committed to building Canada's capacity to successfully participate in the ever-changing global economy.

Through *Advantage Canada*, we are taking important steps to create the right conditions for Canadian businesses and investors alike to compete, both here in Canada and in world markets. We have introduced tax cuts and incentives. We are investing in workforce education and training. We are removing impediments