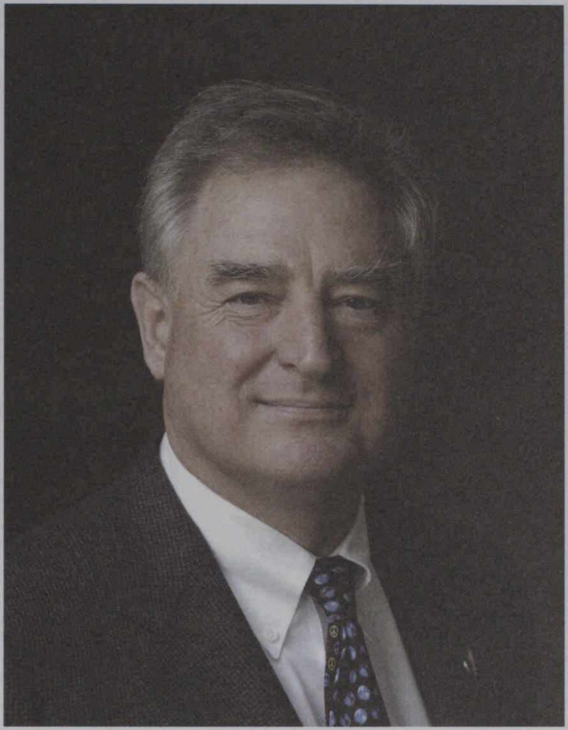

A MESSAGE FROM THE HONOURABLE DAVID EMERSON, MINISTER OF INTERNATIONAL TRADE AND MINISTER FOR THE PACIFIC GATEWAY AND THE VANCOUVER-WHISTLER OLYMPICS

As Canada's Minister of International Trade, I am pleased to present the *Annual Report on Canada's State of Trade for 2006*. This document provides an overview of developments in the global economy that have influenced Canada's economic performance over the past year, and provides a snapshot of Canadian trade and investment flows by sector and by region.

Statistically, the *State of Trade* shows that 2005 was an impressive year for Canada's international commerce. Driven by high commodity prices and our unparalleled access to the American market, our economy demonstrated great resilience in the face of global challenges. We exported a record-breaking $516 billion in goods and services — a 5.2 per cent increase from 2004 — and foreign direct investment in Canada increased by more than nine per cent.

But we cannot afford to be complacent. Our economy is being challenged on a number of fronts.

As markets continue to globalize, all sectors — primary, manufacturing and services — are certain to face increasing pressure from new and traditional economies alike.

We remain under-represented in key Asian and European markets, and are falling behind in negotiating free-trade agreements with our trade partners.

Even our privileged access to the U.S. market is at risk. It is likely that China will soon overtake Canada as the top supplier of goods to the American market. We also face a productivity gap with the U.S. — a gap that puts the living standards and prosperity of Canadians at risk.

Finally, we have to recognize that for all of our efforts to diversify our economy over the last hundred years, Canada solidly remains a resource-based economy. The driving factor behind our current commercial success – the hot commodity cycle – will not last forever. We need to take aggressive steps to become more competitive in other areas, and demonstrate to the world that the Canadian economy is about far more than our natural resources.

We need to position Canada as a magnet for investment – and support investment by Canadian companies in key markets – thereby developing the supply chains that enable the free flow of trade.