

Executive Summary

In the post Cold War era, economic diplomacy matters more than ever, especially for a middle-sized, open and trade-dependent economy such as Canada. This Staff Paper reviews Canada's economic relations with the major regions and attempts to identify critical emerging trends.

The Paper focuses on long-term changes in export market shares, investment (both direct and portfolio) patterns, research and development activity, and trade policy developments of interest to Canada. The strategic impact of the NAFTA on Canada's economic diplomacy is discussed, especially in light of the growing importance of the Pacific Rim and Latin America. The NAFTA can assist in achieving improved access to a number of regional markets. It should also be viewed as an important instrument for encouraging a negotiating dynamic over the medium to longer term that can address Canadian economic interests in Japan and the EC, as well as with regard to further securing access in the U.S.

Broadly stated, the Paper indicates that Canada's ties with Europe have loosened over the past generation, but that the financial and personnel resources that the federal government dedicates to trade and economic relations with Europe are still proportionally greater than merited when compared to the increasing importance of the Pacific Rim and Latin America for Canada's trade and trade policy agenda. Other elements of Canada's economic diplomacy (aid, environmental cooperation) should also take Latin America and the Pacific Rim into greater account. The Paper reaffirms that economic relations with the U.S. remain critical to Canada's well-being; although the level of resources dedicated to that task does not appear lacking. More emphasis on trade policy (as distinct from trade promotion) might be merited with regard to the U.S., given the heightened importance of trade rules embodied in the FTA and the NAFTA for the management of this special bilateral relationship.