Trade Commissioner Service Centennial
1894 - 1994

Discussion Paper

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Trade Policy and Trade Development: Making the Market Access Connections

by

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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.

volume of Canadian trade in goods and services. The fiscal pressures on Canada's trade and business development programs are coinciding with pressures to increase utilization of these programs in order to break into new markets.

Fourth, the implementation of the Uruguay Round reduces the trade preferences within NAFTA and improves Canadian access to offshore markets. The broader range of obligations under the new World Trade Organization will apply to a much wider range of countries than ever before. Translating these new obligations on, and commitments by, many countries into effective market opportunities for Canadian business will require a proactive strategy of monitoring foreign compliance, vigourous representation of Canadian interests where they are affected, and a willingness and capability to make effective use of the dispute settlement process under the WTO.

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Together, these factors, but especially the last two factors, raise questions about whether the links between business development and trade policy can be effectively integrated in a coherent and operational strategy. This paper considers the nature of the trade policy/international business development interface over the balance of the 1990s and into the next century. The first section discusses the domestic and global contexts in which trade policy and international business development will unfold in the next few years.

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The next section examines the link between international business development and trade policy. In theory, trade policy and trade development should synergistically combine to enhance a nation's economic security. Historically, however, the two elements of a nation's international business strategy have not been closely integrated in Canada. They have sometimes been called the "two solitudes" - trade development is activity-driven and transaction oriented, while trade policy is influenced by the overall policy agenda and is driven to a very large extent by intergovernmental interaction. While the trade development function has always taken account of market access considerations, most activities involving formal representation and advocacy on market access issues have been an Ottawa-based activity or focused on a few key foreign missions, -- the mission in Geneva for GATT disputes, the embassy in Washington and to a lesser extent the missions in Brussels and Tokyo.

Although Canadian industries and governments have spent millions in litigating high-profile trade disputes, such as Softwood Lumber, in the U.S. market, that is the exception. Canadian governments and industry have tended to rely upon trade negotiations as the primary vehicle to improve market access. There is much merit in this approach. Although they are skill and knowledge-intensive, trade negotiations require only modest resources. A single export financing default can impose higher costs upon Canadian governments than a decade of effort in trade negotiations.

At the same time, however, a more aggressive approach to implementation of international trade and economic agreements now seems to be called for. Certainly, the United States government regards vigorous advocacy to be a key element in trade promotion.

The report to the United States Congress of the Trade Promotion Coordinating Committee states:

> ...the limitations of the current advocacy process adversely affect the ability of U.S. companies to compete...The goal of improved advocacy is consistent with U.S. interests and objectives, to provide appropriate U.S. government support to large as well as small and medium-sized U.S. firms as they face foreign competitors who are aggressively backed by their governments.[2]

Both trade development and trade policy are being transformed by globalization. Trade development is becoming international business development -- the export of goods and services frequently requires market presence in the form of direct investment, joint ventures, or technology licensing. Indeed, both inward and outward direct investment can facilitate trade and access to technology through participation in multinational production networks. Trade policy is encompassing an ever broader array of non-tariff barriers and new issues such as rules for investment, rules for trade in services and intellectual property rights are being brought within the ambit of trade policy. 8

The third section provides a quick overview, in the form of a case study, of the structure in recent years of government-business cooperation in international business development. This case study highlights some points about the strategic policy implications as governments and trade associations experiment with different modalities in the search for more cost effective approaches to international business development. In this process, it is important that the strategic role of representation and advocacy of Canada's market access and economic interests receives sufficient attention and priority. The final part of the paper outlines some options for the future of the trade policy /international business interface in Canada.

It is not the objective of this paper to provide detailed analysis of the structure of Canada's international business development programs. This has already been done by both public and private sector commentators.[3] Nor does the paper seek to answer the question of how much resources Canadian governments ought to devote to a wide range of international business development activities and various export incentives. Rather, this paper seeks to emphasize the impact of a changing global economy on what is often thought of as a symbiotic relationship between international business development and trade policy. In doing so, the paper expands on the recent analysis and debates. 9

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[2] Trade Promotion Coordinating Committee, *Toward a National Export Strategy*, Report to the United States Congress/ September 30, 1993.

[3] Andrew Griffith, "Straight Talk on Why Canada Needs to Reform its Trade Development System," *Canadian Foreign Policy*, Volume 1, No. 1 (Winter 1992/93), pp. 61-85; and Tim Reid, "Challenging Canada's International Business Paradox: A Private Sector Perspective," *Canadian Foreign Policy*, Vol. 1, No. 1 (Winter 1992/93), pp. 87-101.

The paper poses the following questions: How can Canada better consolidate and coordinate its approach in the international business development and trade policy interface in order to maximize Canada's long-term economic interests? How can Canada's public and private sector institutions and agencies better pool their expertise so that a critical mass can be formed to penetrate foreign markets? What do Canadian governments need to do, in light of resource constraints to make sure that Canadian based enterprises have effective access to international markets and can pursue international business opportunities within the new framework of international trade and economic agreements?

THE CONTEXT

In order to provide recommendations on how Canadian international business development efforts could be restructured in the face of the changing nature of trade policy, it is first necessary to understand that the next stage in the evolution of Canada's trade policy will take place against the backdrop of a fast-changing business and economic environment.

Canada's overall international economic performance over the last two decades has been relatively weak. First, although Canada enjoys a diversified economy, world class technologies, a highly educated workforce and an excellent international reputation, its share of world merchandise trade in the last two decades has dropped from 5.2% to 3.6%, as more countries have produced globally competitive products. Not only has Canada lost export market share to rapidly growing emerging economies like China, Korea, Mexico and Taiwan, but since 1989 Canada has lagged behind the major G-7 industrial countries in export share. Some of Canada's weakness in export performance during the 1989-1992 period reflects the weakness of commodity prices in the prolonged global recession of the early 1990s, because Canada performed about as well as, or better than, other G-7 economies in the 1980s and because manufacturing exports to the United States have been relatively strong under the FTA. Nonetheless, unless Canadians expect that there will be another prolonged commodity boom, Canada must expand exports or face pressure on living standards.

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In light of the disappointing statistics it is clear that without a significant change in public and private sector approaches to international business development, Canada's declining world market share raises the question of how the Canadian economy will respond to the competitive challenges and take advantage of emerging opportunities resulting from the liberalization of barriers to trade and the stimulus to investment resulting from the North American Free Trade Agreement (NAFTA), and the new World Trade Organization(WTO). Some of the challenges stem from globalization of the world economy.

Globalization

The interpenetration of national economies by trade and direct investment,-- a persistent trend of the postwar economy which accelerated during the 1980s -- has generated the term globalization. The globalization of the 1980s as popularized by Peter Drucker, Kenichi Ohmae, Michael Porter, and Robert Reich was conceived as a TRIAD phenomenon. In a widening range of industries, multinational enterprises recognized the need to operate in the U.S., European and Japanese markets in order to remain competitive. More aptly, this was an OECD phenomenon, because Canada and other smaller OECD economies such as Australia, Sweden and Switzerland also participated in this process. Ohmae's Borderless Economy offered important insights to business leaders whose training and experience had focused them on competition within national markets. However, it was only the OECD economies that could be characterized even loosely as a "borderless economy". The GATT trading system meant that liberalization was focused among the OECD club. In 1989, the developed countries accounted for more than 70 per cent of world merchandise trade.

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Most "developing" countries were little touched by the globalization process at least until very recently. Consider the case of India, which was a founding member of the GATT, but which used its diplomatic skill and knowledge of the GATT to maintain a very restrictive, even autarchic trade and payments policy. Of course this diplomatic victory, this exercise of sovereignty was realized at great cost to the Indian economy and to the living standards of Indian citizens. India was a de jure member of the trading system, but it was not a de facto member.

If we look back over the last two or three decades and outside the OECD region, the one exception to the norm of restrictive trade and payments regimes and of relative economic decline was the emergence of the Asian NIEs. Although there were significant differences among them in their policy regimes with Hong Kong pursuing a laissez faire nineteenth century model, while other dynamic Asian tigers were more interventionist, the similarities are more important than the differences.[4] The selective interventions were geared to promoting the industries which were most successful in export markets, not in backing declining industries. All had a proexport bias with stable macroeconomic regimes and high savings rates. All have opened their economies to international trade and investment. Along with the OECD economies, the Asian NIEs increased their share of world trade in the 1980s.

The combination of the success of the Asian NIEs, and the evident failure of import substitution policies reflected in the debt crisis, had a persuasive demonstration effect for many countries. As the 1980s turned into the 1990s, there was a world-wide process of competitive liberalization among developing countries and the former socialist economies. Starting with Mexico's *apertura* in the mid-1980s, the rejection of the *dependencia* model and the swing to neo-liberalism spread through much of Latin America.

Perhaps the most dramatic development of the late 20th century was the spasmodic reintegration of the centrally-planned economies into the world economy. This process started very gradually with the incremental steps of China's open door policy in the late

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[4] The World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, (New York: Oxford University Press, 1993).

1970s. The opening of China's economy to foreign trade and investment has continued irregularly, but without major reversals ever since. The fall of the Berlin wall and the collapse of the Soviet Empire were very dramatic political events with significant long run economic consequences. Presently, China is striding, and the former Soviet Union is stumbling back into the world economy.

The rapid changes in the global economy raise questions about how Canadian policies have adapted, and how do they affect the competitiveness of Canada in the global marketplace.

Competitiveness of the Canadian Economy

The overall competitiveness of the Canadian economy is influenced by framework policies such as the taxation system, social policies and domestic regulation. Macroeconomic policies in Canada and major trading partners will shape the pattern of Canadian trade and investment flows.

Framework Policies

The overall mix of domestic policies is critical to Canada's competitiveness. Adopting sound fiscal and monetary policies, creating a more skilled labour force, removing internal market barriers, and establishing tax and regulatory policies that encourage investment, and human resource development are all essential ingredients in any framework to promote increased Canadian competitiveness. Fiscal pressures are forcing the federal and provincial governments to retrench programs such as unemployment insurance, which have insidious effects on labour markets. More needs to be done in reform of social policies to promote the effective development of skills and the utilization of human resources, but there are political obstacles that must be surmounted. With high unemployment and a domestic economy that is likely to remain subdued for several years, the new federal government will have a keen interest in ensuring that all of its economic policy levers are aligned with the objectives of improved international competitiveness and increased exports.

Monetary and Fiscal Policies

Canada's monetary and fiscal policies have been a major factor in Canada's economic performance, and the future conduct of macroeconomic policy will influence Canada's medium-term prospects. In 1989-1993, Canada had a current account deficit averaging 4 percent of GNP reflecting at least in part the persistence of the fiscal deficit by the federal and provincial governments. At the same time, Canadian monetary policy was directed at containing inflationary pressures and tightened in 1989, after the temporary easing immediately after the October 1987 stock market crash. This macroeconomic policy mix of large fiscal deficits and monetary restraint led to a level of interest rates in Canada and an exchange rate for the Canadian dollar, which were high relative to sustainable values. The Canadian dollar peaked at .88$ US in November 1991, but has since declined about 20 percent against the US dollar and more against offshore currencies. With international liabilities in excess of $300 billion, the Canadian economy appears unable to sustain current account deficits at current levels. A sustained reduction in the fiscal deficit combined with an offsetting monetary expansion, which maintained a stable expansion in nominal income, would help accelerate the process of turning around Canada's current account deficit.

Shifting trade tides 13

Similarly, the pattern of Canadian trade is affected by the exchange rate alignment among the major industrial countries. During the 1970s when the U.S. dollar was low, Canada earned all of the trade surplus required to service its substantial international liabilities as well as to cover the deficit on current services transactions from offshore trade. During the 1980s with the strong U.S. dollar, Canada obtained all of the necessary trade surplus from trade with the United States and ran a trade deficit with the rest of the world. Although the process could be irregular, depending upon the budgetary policies that emerge from the continuing struggle between the U.S. administration and the Congress, during the 1990s the United States will be obliged by mounting foreign debt service requirements to continue to make progress in reducing its trade deficit. Thus, Canada will need to look to offshore markets for growing export opportunities.

The natural tendency for the U.S. trade deficit to be unwound during the 1990s could be reinforced by shifts in macroeconomic policy. The lingering recession in Europe and Japan has depressed domestic demand in those economies. However, Europe is running modest current account deficits in the early 1990s. At the same time, Japan is increasing investment in infrastructure, which will tend to reduce Japan's trade and current account surpluses. Emerging markets in Asia and Latin America are magnets for investment and will need to import capital goods and consumer durables to fuel their growth.

In addition to swings in global trade and payments flows, there will be renewed pressures for expansion of Canada's net exports of goods and services during the 1990s. Sustained progress in reducing government budget deficits would help accelerate this turn around. However, external macroeconomic pressures to moderate Canada's own external imbalance will be intense in the 1990s. Of course a new wave of expanding fiscal deficits (structural budget deficits adjusted for levels of capacity utilization) could delay this adjustment process, but this would only increase Canada's vulnerability as one of the largest per capita international debtors in the world.[5] 14

Moving towards current account balance for the Canadian economy, at the same time that the U.S. economy is unwinding its large trade deficit, could lead to large swings in the pattern of Canadian trade. Canada will remain heavily dependent upon the U.S. market and achieving a higher share in that market may be the primary channel for the adjustment in

[5] Only Belgium, Ireland and Italy have higher debt to GDP levels and in the case of Italy much of the debt is held domestically.

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Canadian trade flows through which an improvement in the current account balance could be effected. Nonetheless, large swings in trade with third countries also will be required. For example, achieving a one percentage point improvement in the current account deficit through offshore trade would require a 50 percent increase in exports to Western Europe, the Pacific and Latin America assuming no increase in imports from those regions. Since imports are likely to rise as exports rise, achieving the necessary swing in net trade and current account balances will require an even greater expansion of exports.

MEETING THE TRADE CHALLENGES?

Clearly the swings in trade flows that will be required to achieve a more sustainable current account position for the Canadian economy will require a dramatic shift in the marketing and product orientation of Canadian firms. The present private sector links with offshore markets and the public sector infrastructure that supports those private sector efforts will be tested severely in the balance of the 1990s. Indeed, the need for public sector support for trade promotion or advocacy of market access interests, is most acute when firms are attempting to break into new geographic markets or developing new marketing channels.

Canadian firms face particular challenges in breaking into the expanding markets in Asia-Pacific and Latin American countries. During the 1970s, when demand for resource commodities was expanding rapidly in Japan, Canadian exports across the Pacific expanded with only modest investment links -- there were modest investments in Canadian resource developments by Japanese companies. The 1980s were a time of transition when demand for Canadian resource exports in the Pacific Rim economies lagged while the economies on the western Pacific built up large trade surpluses with the United States. During the 1990s trade flows and investment links among the western Pacific economies are likely to continue to expand. For example, manufactured products constitute an expanding share of Japanese imports, but the main sources of those products are other Asian economies. At the same time, Japan's exports to, and investments in, ASEAN countries now exceed those of the United States.

Similarly, some of the Latin American economies have rebounded from the lost decade of the debt crisis with much more outward oriented economic policies following the path of the Mexican apertua. Through the NAFTA Canadian based enterprises have the equivalent opportunities for access to the Mexican market as U.S. based enterprises, but Canadian enterprises lag in translating these opportunities into effective market presence in Mexico. Nonetheless NAFTA has stimulated Canadian investment in Mexico and this could stimulate Canadian linkages with other Latin American economies.

Similarly Canada faces challenges in Europe. Many of Canada's resource-based exports to Europeans markets face new challenges because of environmental standards and regulations. Firms in Germany, Austria and other West European countries are well positioned to take advantage of emerging opportunities in Eastern Europe. Canadian trade and investment links with Western Europe weakened during the 1980s and Canada's capabilities to participate in the economic restructuring occurring in the expanding European Union are limited. The implementation of the World Trade Organization will provide a better framework for managing the trade and economic relationship with Europe as well as the emerging economies of Asia-Pacific and Latin America.

The Uruguay Round and the WTO in a nutshell

The results of the Uruguay Round are embodied in a single agreement under the auspices of the World Trade Organization (WTO). This single undertaking encompasses the GATT 1994 which replaces the pre-existing GATT 1947 and thirteen separate agreements pertaining to trade in goods as well as the General Agreement on Trade in Services and the new rules for intellectual property protection. All these agreements are under the umbrella of the World Trade Organization and are subject to a single integrated dispute settlement mechanism.

What does this new legal structure for the multilateral trading system mean for the conduct of trade or investment decisions? This new legal structure represents a complete overhaul of the multilateral trading system. For example, the concept of special and differential treatment which has been a key element of the GATT since the 1950s has largely been modified and most aspects will be phased out within five to seven years. This is a major change in the global trading system. Until now, the major obligations for tariff bindings with respect to market access; national treatment for imported products; the prohibition on quantitative restrictions; and all the other elements of the multilateral trading rules have only applied among the small group of developed countries, primarily the members of the OECD. Many developing countries have been formal participants in the GATT system, but in practice the developed countries have had obligations to them, while developing countries have had few effective reciprocal obligations to the developed countries.

Some of the key results of the Uruguay Round include the very substantial market access package, which has significant reductions in tariffs including zero for zero arrangements in sectors such as paper products and non-ferrous metals. These zero for zero arrangements are of real benefit to Canada in terms of shipments to offshore markets, especially for value-added processed resource products. The Uruguay Round also includes rules to liberalize and phase out over ten years the quantitative restrictions on textiles and apparel under the Multifibre Arrangement. After decades of having special rules for agricultural trade, there are clear binding rules for market access and for domestic subsidies and export subsidies in the agricultural sector.

The WTO agreement, as mentioned earlier, includes an integrated dispute settlement mechanism. The traditional problem of blockage of panel reports has been addressed through automatic acceptance of panel reports with an appellate mechanism. The implication of this is that GATT dispute settlement under the WTO promises to be both timely and more consistent in the handling an acceptance of panel reports. This represents an important step toward a rules-based system, but the implementation of these new obligations may vary among trading partners. Canadian governments will need to be vigilant during the transition period and ensure that Canadian enterprises have full opportunities to participate in emerging markets.

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What does this mean for Canadian Trade and MNE Activity?

The effect of the Uruguay Round and the WTO will be to lead to significant internationalization of MNE activity in Canada. Many MNE subsidiaries in Canada, Canadian enterprises participating in MNE production networks, or indeed Canadian based MNEs, have restructured to take advantage of opportunities under the Canada-US Free Trade Agreement, and now under NAFTA, by seeking out niches in the North American market place.

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There are three effects of the reductions of trade barriers as a result of the Uruguay Round within the context of NAFTA. First, the effect of the Uruguay Round agreements and the WTO is to significantly reduce by roughly 40 percent the tariff preferences that the United States provides to Canadian exports and the preference that Canada provides to US exports as a result of the FTA and NAFTA. Similarly preferences in the Mexican market under NAFTA will be reduced, but this is more prospective because the phase-in schedule for the Uruguay Round reduction in trade barriers follows closely behind the reductions under NAFTA. Second, Canada will get significant improvements in access to offshore markets including processed resource products in the zero for zero sectors. In addition, there are significant gains for export to offshore markets for access for manufactured products including high technology products. Third the reduction of Canadian trade barriers under the tariff schedules that Canada has offered in Geneva will lead to the reduction of input costs for many Canadian industries. All three of these effects will act to make Canadian based activities more competitive in the global market place.

There are potential hysteresis effects which could be beneficial or disadvantageous to Canadian based enterprises and the Canadian economies. The benign hysteresis effects are that the Canadian based MNEs or firms in Canada participating in North American MNE production networks will have established a persistent competitive advantage in the North American market place even when the preferences within the North American market are reduced. Potential negative hysteresis effects could arise if the restructuring in a North American context leaves Canadian based enterprises or subsidiaries less inclined or less able to pursue emerging opportunities in offshore markets or to participate in larger global networks. Benign hysteresis effects are likely to dominate because the reduction in trade barriers will be phased in and thus the Canadian based enterprises will have lots of opportunities to adapt to both new competition and to take advantage of new opportunities as the trade barriers are reduced. Furthermore, the preferences are simply being reduced they are not being eliminated by the Uruguay Round reductions in trade barriers.

LINKING TRADE POLICY AND INTERNATIONAL BUSINESS DEVELOPMENT

In the above discussion we have explained the impact of the domestic and international environments on Canada's international business development and the future challenges for its trade policy. This begs the question: In what ways can the linkage between trade policy and international business development be described in the new global economy? It is clear that the old axiom still holds true: governments set the rules for trade and investment; business trades. However, the changes in the trading rules and in the marketplace are interacting.

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Government can play a crucial role at the microeconomic level by helping to close private sector deals. This is more so in difficult, highly protected interventionist markets than in more liberal ones. However, Canadian governments face mounting fiscal constraints which circumscribe their ability to compete in export financing. At the international level, government policy priorities may also determine whether a company can export to certain countries and what it can export (e.g., sanctions on South Africa, Haiti), or whether it can call on concessional financing from the government to compete effectively with a competitor's bid. There is also the question of conditionality - linking trade to the human rights, or the military expenditure, or environmental records of the importing countries (as in the current debate on Canada's trading relationship with China).

The articulation of the increasingly complex interests of Canadian business, which are affected by the trade policy decisions of government, to government is facilitated by a number of permanent private-public sector forums. These include the International Trade Advisory Committees (ITACs), and the Sectoral Advisory Groups on International Trade (SAGITs) which are administered by the Department of Foreign Affairs and International Trade (DFAIT); the trade policy committees of Canada's horizontal business associations (e.g., the International Affairs Committee of the Canadian Chamber of Commerce, the Trade Policy Committee of the Canadian Council for International Business), those of the sector-specific, or vertical, industry associations, and those of provincial governments.

THE ROLE OF THE TRADE COMMISSIONER SERVICE

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The Trade Commissioner Service (TCS) is Canada's biggest trade promotion network, with officers in over 100 countries. In 1982, the TCS, previously part of Industry, Trade and Commerce, was amalgamated with the Department of External Affairs. The rationale for the move, foreshadowed by integration earlier in operations abroad, was that foreign policy had to serve broader national interests and, in an increasingly interdependent world, it was detrimental to those national interests if trade development (as it was then known) remained in a domestic department. External Affairs had always had a role in the formation of trade policy, along with the departments of Finance and Industry, and Trade and Commerce. Foreign policy would now include the whole range of Canadian interests overseas - economic, trade, immigration, political, aid, cultural - centralized under one department.

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This "central agency" vision of DFAIT had been the vision of a number of high-ranking Foreign Affairs officers such as A. Gotlieb when he was under-secretary of state.

The problem with this amalgamation or consolidation, however, was that it weakened the links between industry sector branches and the TCS. The former industry sector expertise of Industry, Trade and Commerce became dispersed in the new Department of Regional Industrial Expansion. Subsequent separation of regional and developmental goals - through the creation of regional development agencies such as the Atlantic Canada Opportunities Agency and Western Canada Diversification - from industrial development objectives led to the Department of Industry, Science and Technology in 1990. Further, reorganization led to the creation of a consolidated Industry department in 1993. The policy branch of Investment Canada was assigned to Industry, while investment promotion was transferred to Foreign Affairs and International Trade.

At the same time, as Griffith has pointed out, trade commissioners have had to adapt to a more bureaucratic culture at External Affairs. While trade commissioners at Canada's missions abroad continued to believe that their role was providing a service to the business community, trade commissioners in the Pearson Building spent more and more time preparing briefing books for their minister and less and less time with their clients, namely, the business community. Institutionalization of government-industry consultations through the ITACs and SAGITs and support to a network of business councils (see discussion below) did not fully compensate for the level of previous contacts.

There also began a gradual diffusion of Canada's international business development activities both across the federal government, in particular departments, and between the federal and provincial governments. Although the responsibility for export market development lies nominally with DFAIT, there exist a growing list of federal government departments and government-funded agencies engaged in the delivery of what can be defined broadly as "export development".[6] In the 1980s provinces such as Ontario, Quebec, British

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[6] According to the Foreign Affairs and International Trade Canada 1993-94 Estimates (II-25), government-wide there are over 18 departments and agencies providing programs and services on market access, technology, investment, export promotion and tourism. Within DFAIT the following trade programs exist: the new Program for Export Market Development (PEMD), Fairs and Missions Program, Technology Inflow Program, Investment Development Program, National Trade Strategy, World Market Trade Fund, Going Global, Access North America, Renaissance Eastern Europe, Post Initiated Projects Fund, Environmental Technology Transfer Opportunities Fund, Bureau for Assistance for Central and Eastern Europe. Other federal government departments involved in export promotion are: Agriculture Canada (Agri-food Trade Opportunities Strategy (TOS), AIMS, Export Expansion Fund), Atlantic Canada Opportunities Agency (ACOA), Canadian Commercial Corporation (CCC), Canadian International Development Agency (CIDA), Environment Canada, Fisheries and Oceans, FORD-Q, Industry Canada, National Defence, National Research Council, Natural Resources Canada, and Western Economic Diversification. In terms of funding sources there are: Export Development Corporation (EDC), commercial banks, United Nations and specialized agencies, the World Bank Group (IBRD, IFC, MIGA), and regional development banks. From *The Trade Program Manager's Unofficial Survival Guide* (Ottawa: Department of External Affairs and International Trade Canada, 1993).

Columbia, and Alberta achieved significant international profile through trade missions and representative offices. However, by the early 1990s, due to growing provincial debts and deficits, such provincial profile was no longer sustainable and all these provinces, except for Quebec, curtailed their international business promotion significantly. In 1993, Ontario, for example, closed all its offices abroad; Quebec, in contrast, has expanded the number of its cultural and trade offices abroad. Not surprisingly, the more actors there were, the more duplication occurred: whether on the domestic delivery of market intelligence and export preparedness; or program delivery abroad; or the development of government policies and strategic priorities in consultation with industry.

The reorganization of the TCS and the "capturing" of its functions by other federal and provincial departments highlight a number of structural problems inherent in the current system of international business development. First, there are gaps between vertically integrated departments (e.g., DFAIT, Industry Canada). Second, there has been significant criticism that the current international business development system needs to be more selective and market-driven. Third, despite increased links between domestic and international interests, the government's international business development activities in many respects remain disconnected from the private sector's interests. Finally, as the case study in this paper shows, the private sector must take a more active role in the management of its export strategies. Yet this raises issues about relationship between the international business development functions and the market access advocacy functions. The next section looks at the country- or area-business council as one type of business-government partnership that in recent years has promoted Canadian business abroad.

THE BUSINESS COUNCIL AS A MODEL OF PUBLIC-PRIVATE SECTOR COOPERATION: THE CANADIAN CHAMBER OF COMMERCE AS AN EXEMPLAR

The following case study looks at the approaches to export promotion taken by the Canadian Chamber of Commerce, arguably Canada's largest and most representative business association representing over 170,000 businesses.

In 1981-82 the Chamber embarked on a business council model for the promotion of exports to more esoteric markets (e.g., not Western Europe and the United States). While the Chamber had the vision it did not have the financial means to make this a reality.

Enter the government. In what became the model of private-public sector cooperation in export promotion in the 1980s, the federal government and, to a lesser extent, provincial governments through their respective trade ministries, would provide "seed" or "core" funding to horizontal business associations such as the Canadian Chamber of Commerce to

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either "create" private sector geographic business councils or to fund their programs.[7] The understanding was that this type of limited-term funding (usually multiyear on a sliding scale) would motivate the Canadian private sector to explore the more esoteric markets, something, the government felt Canadian companies were failing to do by relying on their vertical industry associations and the existing federal export promotion programs. It was also understood that these private sector councils would eventually become self-financing.

The roles of the councils at the Chamber were, for the most part, to provide the most basic market information - as opposed to market intelligence - to companies who, for an annual membership fee, became members of the business councils targeting specific geographic markets. The primary activity of these councils was to engage in the most basic form of international business promotion by: publishing newsletters, organizing luncheons and dinners for incoming foreign delegations in order to familiarize them with Canadian products and services, leading outgoing missions (sometimes with a Canadian minister), and, on occasion developing market surveys. Although it was anticipated that the business councils would handle commercial inquiries from their members, in practice, especially for geographically-oriented councils, the council staff rarely had the resources or knowledge base to deal with specific questions. More often than not the inquiries requiring specialized information were referred to DFAIT or Canada's missions abroad.

Another interesting element of the councils was that invariably they became controlled by the largest members, if not the likes of Northern Telecom, then often Canadian subsidiaries of American and other foreign multinationals. This succeeded in many cases, from a structural perspective since the big companies did not need "promotion" services, to change the orientation of the promotion programs themselves so that they did not necessarily meet the more basic information needs of the smaller member firms in whose name the councils were created in the first place.

At the height of this type joint private/public sector international business promotion model, the Canadian Chamber of Commerce was administering nine different business councils as well as additional consultative bodies that brought together academics, government and business people on issues affecting the Pacific Rim, the UK, and the United States.[8] In addition, since Canada does not accord diplomatic recognition to Taiwan, the Chamber has since 1985 been administering the Canadian Trade Office in Taipei (CTOT), an office that is funded by DFAIT; in 1989, with multi-year funding from DFAIT, the Canada-

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[7] On the federal side, were the departments of External Affairs and International Trade, Industry (then Industry, Science and Technology Canada), and the Canadian International Development Agency (through its CIDA Inc. and CIDA bilateral programs); on the provincial side, the players were most notably BC Trade and Development Corporation, Alberta's Department of Economic Development, Ontario's then Ministry of Industry Trade and Technology, and Quebec's Ministere des Affaires Internationales.

[8] The Canada-Korea Business Council, Canada-Taiwan Business Association, Asean-Canada Business Council, Canadian-East European Trade Council, Canada-India Business Council, Canada-Turkey Trade Council, Canadian Council for the Americas, and the Canada-Pakistan Business Council, and the Canada-Arab Business Council.

Arab Business Council - also administered through a fee-for-services contract with the Chamber - set up a trade office in Dubai (in 1993 the Department made the office into a full-scale diplomatic mission).

Significantly, although there had been some consideration that these business councils would in a regular, coordinated fashion, channel trade policy views back to the government on the basis of geographic - rather than issue - areas, in practice the Government, having the ITACs and SAGITs, rarely sought nor received trade policy advise from the Chamber's individual business councils. An exception to the lack of any coordinated policy input from councils has been the CTOT; but even here, over time, as Canadian government officials were sent to CTOT on secondment (it is now run by a senior Canadian official from DFAIT), the notion of the Chamber providing *independent* policy advice and views on Canada's relations with Taiwan became less and less realistic.[9] And finally, when the Chamber has sought to create a trade policy mechanism to facilitate consultations on emerging issues not directly affecting Canada-US relations, as it did in 1992 with the prospect of a Single European Market, it has found it difficult to mobilize the Canadian business community.

While the business council format has not been successful in channelling policy - as opposed to promotion - views from the private sector, this is not to say that the private sector has been quiet on issues that affect Canada's relations with its most important trading partner, the United States. The Chamber was very active and vocal in mobilizing its membership (through its chamber network) in support of the Canada-US Free Trade Agreement. And, in the course of the negotiations leading up to the NAFTA - where the Chamber has been very active in promoting Mexico as a business partner for Canada - and the completion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the Chamber was very active in developing and articulating its policy views and preferences.

The close relationship between individual federal government departments and some provincial governments departments and horizontal business associations such as the Chamber were mutually beneficial in the mid- to late-1980s and early 1990s. The Chamber's international division grew exponentially in size as a result of funding arrangements with the federal government. For example, in fiscal 1992-93, the Chamber received $2.27 million from DFAIT for trade promotion in the Asia Pacific region (with most going to CTOT)[10]; this amount equalled approximately a third of the Chamber's annual operating budget. This arrangement is not unique to the Chamber - it has been estimated that about 50% of the Canadian Exporters Association budget comes from the federal government. Indeed, so great was the Chamber's dependence that by the late 1980s the international division with its

[9] An indicator has been that communications traffic - once routed from CTOT to the Chamber office in Ottawa before being re-transmitted to DFAIT headquarters - now goes directly from CTOT to DFAIT.

[10] Canada, Department of Foreign Affairs and International Trade, *Estimates*, p. 112-III.

multifarious business councils and committees began to dwarf the Chamber's traditional focus on lobbying government through its other divisions.

This situation lasted for a time and was used as a recruitment mechanism to enlarge the Chamber's membership. The Chamber could claim to its broader membership (members of the Chamber were not necessarily members of the individual business councils) that it was leading the charge on international business development. The federal bureaucracy, wishing to have a reliable, high-profile, private sector interlocutor on international business promotion (it already had the ITACs and SAGITs on trade policy issues), found the business council format administered by the Chamber as a convenient way to coordinate and systematize its trade promotion activities with the private sector. And, importantly, the federal bureaucracy could advise those ministers directly responsible to the business community (ie., minister for international trade, junior minister for small business, minister of industry) that the Canadian business community as represented by Canada's most representative business association "in partnership with government" was taking the initiative in promoting exports of goods and services. In practice, the business councils at the Chamber rarely functioned as sources of market intelligence, rather over time they came to perform, albeit with a high level of proficiency, the low value-added trade promotion activities (largely logistics) that DFAIT preferred to contract out.

Using the case study of the Chamber, with its permanent staff hired out to the business councils to work on mostly federal government-financed programs (although it is true that the Chamber did itself directly subsidize some of the business councils), it is not surprising that what had begun in the mid-1980s as a symbiotic relationship between the public and private sectors, had by the late 1980s and early 1990s turned into one in which the private sector association community, with the Chamber as an exemplar, exhibited ever greater signs of dependency on federal funding. The notion of the Canadian private sector creating self-financing international business development programs did not materialize. Indeed, the vast majority of the Chamber's business councils could not survive on a fee-for-service basis.

The combination of an increasingly competitive business association community in Canada (federal officials found themselves increasingly on the receiving end of competing proposals from a number of business associations) and the onset of government belt-tightening in the face of a crippling national debt and deficit, meant that not only were federal officials questioning the utility of the business council format but also that the core funding of the 1980s was no longer available. Not surprisingly, a shake-out occurred in the early 1990s in the private sector trade promotion community and, without federal funding, many of the business councils formerly run by high-profile national associations such as the Chamber, disappeared or were absorbed by other federally-funded associations such as the Asia-Pacific Foundation.

In 1994, the Chamber is running only four of the nine business councils it was running in 1990 and, after a strategic corporate review, has decided to look at other -- nonbusiness council means -- of promoting international business, with a preference for a fee-for-service format that charges Canadian business directly, rather than providing a subsidized service through the business council from the federal government. It is looking to focus its promotion efforts on specific sectors rather than geographic regions, although it is uncertain whether this will overlap the export promotion efforts of various vertical associations in Canada. Indeed, organizations such as the Chamber, under pressure from their own membership to "send the right message to government," have made a conscientious effort to reduce their dependence on federal trade promotion dollars.

That being said, there always appears to be a temptation, when offered the prospect of new sources of funding in a competitive environment, for business associations to tout the public-private sector partnership dimensions of such arrangements. Much of this appears to be inevitable in a competitive trade association environment in Canada where associations such as the Chamber compete for scarce financing with horizontal organizations such as the CMA and CEA certainly, and for profile with associations such as BCNI.

So what has been the Chamber's approach to a new model of public-private sector cooperation. In March 1993, for example, the Chamber became the official Canadian private sector partner as Canada gained access to the European Union's BC-Net system that is designed to promote business alliances between small- and medium-sized enterprises (SMEs) in the EU member states and, since 1992, the SMEs of a select number of non-EU Member States. It should be noted that the Government of Canada through the Department of Industry is providing the initial funding for this project, an initiative that fits into the federal government's overall policy objective of recognizing that an export-led economic recovery can only occur if SMEs become more competitive and increasingly willing to engage in a variety of strategic alliances with foreign firms.

The foregoing case study makes a number of important points. First, by using the Chamber as the most broad-based representation of the Canadian business community it can be determined that, reflecting Canada's growing economic integration in North America, Canadian business has had significant interest in, and has therefore devoted considerable time and resources to, policy consultations on issues affecting intra-North American trade and investment, and has far less interest in international business development/policy in other markets which make up only 20 per cent of Canada's overall world trade.

Second, the nature of the Canadian economy, with its high foreign ownership, often makes it difficult for the Canadian government to actually know whose views it is receiving on what the government's market development or market access strategy should be, those of a Canadian company, or, the views of a subsidiary's head office. Situations in which the Canadian government has spent trade promotion dollars for programs in foreign countries in which employees of the head office of a Canadian subsidiary have participated instead of Canadian employees abound. This is a structural dilemma and thus will remain an ongoing concern.

Of course the problem here is more fundamental than the issue of the use of the business council vehicle. Most governments tend to rely upon private sector complaints in identifying market access problems. This may be appropriate for the large and dense economic relationship with the United States, where many large and small enterprises are involved. Yet this source of advice for markets outside the United States may be seriously deficient. In many instances, large foreign multinationals with operations in Canada, or even Canadian based multinationals, may seek support with advocacy of market access problems from other countries such as the United States or the European Community, where they have substantial operations. In some such cases, the results may be beneficial to Canadian interests, but in other cases the result could be arrangements which discriminate against Canadian interests. For smaller Canadian based enterprises who are operating in offshore markets, there may be a tendency to tolerate market access problems, either because they see the payoff from obtaining changes in market access as too uncertain and protracted to be worth pursuing, or because having learned to operate within the idiosyncrasies of particular markets they acquire a vested interest in the status quo.

This does not, of course, mean to suggest that all geographic business councils as tools of trade promotion or as vehicles for acquiring intelligence about market access impediments are doomed to failure. Indeed, there are examples of successful international trade business councils, although it should be noted that there appears to be increased viability if the council is country specific such as the Canada-Japan Trade Council or the Canada-China Trade Council (which also receives federal government funding) rather than geographic. In general, it can be concluded that given the tighter fiscal environment of the 1990s and with the types of strategic market intelligence required by the Canadian business community in order to promote its higher value-added goods and services, the geographic business councils which have provided useful logistics services and networking activities are unlikely to be the most effective primary vehicle to ensure advocacy of Canadian market access interests.

In terms of the trade policy/trade development interface at the private sector level, it is interesting to note that the same two solitudes exists as in the public sector. At the Chamber, the International Affairs Committee was responsible for getting "policy" as opposed to "trade promotion" feedback from the Canadian business community. However, because like the ITAC and the SAGITs the International Affairs Committee requires a measure of consensus, the Committee has been most effective in developing positions on broad horizontal issues like the negotiation of NAFTA and the Uruguay Round.

What does the above discussion of business government-interface portend for the future of Canada's international business promotion? Will a completely new structure of business development be required and will new agencies have to be created? Or, will we have to have a better coordination of the programs and services offered by existing institutions? What will be the trade commissioner's role in this new system?

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THE FUTURE MANAGEMENT OF CANADA'S INTERNATIONAL BUSINESS PROMOTION

The increasing sophistication of international business is forcing a closer coordination between trade policy and trade development, even in OECD markets. International business development in OECD markets will increasingly require "applied" trade policy. In other words, Canada's market intelligence and advocacy roles are more and more required to deal with market access concerns (e.g., environmental laws, standards and certification, intellectual property rights, restrictive investment regimes etc.).

There is now a process of "spillover" as international business promotion is becoming more than just fairs and missions, and identifying distribution and marketing challenges, and is now addressing institutional barriers that have historically been the exclusive domain of trade policy practitioners.

Since government is policy-driven more than program-driven, trade commissioners will have to be more relevant to both industry and government by having a greater understanding of trade policy and market access concerns. Trade commissioners will need to acquire much more expertise in the rapidly evolving framework of international economic agreements in order that they can help Canadian-based enterprises surmount impediments to trade, investment or transfer of technology. By acquiring, or reinforcing their expertise in this area, the trade commissioner may become more credible private sector interlocutors.

And on the trade policy front, how should Canada respond to the changing global commercial environment? There is a need to recognize that future trade policy cannot be linked to just export promotion, rather the global economy has changed and promotion has to encourage Canadian participation in strategic alliances, facilitating outward as well as inward foreign direct investment, and building global research and communications linkages. In keeping with the current government's commitment to start making "hard choices" about its priorities given dwindling resources and given the continuing disinterest of the Canadian private sector in general with regard to the more esoteric markets, a future international business strategy must be strategic by focusing only on specific, high-potential countries. The universality of Canada's export promotion should be ended. As noted recently by a DFAIT official, "Limited resources mean that governments cannot provide all services and all programs in all markets."[11] Finlayson advocates targeting resources so that companies that are capable of as well as serious about doing international business receive appropriate levels of advice and support would yield a bigger payoff. In his view this would also make better use of the knowledge, skills and time of Canada's highly regarded trade commissioners and "raise the bar" in its foreign market development programs. In other words, fewer services would be unable to satisfy more demanding eligibility criteria.

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[11] Andrew Griffith, "Straight Talk on Why Canada Needs to Reform its Trade Development System," Canadian Foreign Policy (Winter 1992-93), p. 71.

In considering where to direct its scarce financial, human, and diplomatic resources, Finlayson recommends that the Government of Canada spend less on programs aimed at helping Canadian companies in the OECD markets.[12] He notes that this is because such markets are typically more open, their business and legal systems are often quite similar to Canada's; indeed, there are substantial private sector resources and expertise available to Canadian companies that are serious about doing business in these countries. The Chamber has in fact proposed that the federal government consider, on a pilot project basis, allowing it to provide on a fee for service basis, services to Canadian companies in the U.S. market. Furthermore, Griffith has noted that approximately 40 per cent of current federal trade development resources is devoted to Europe. The trade development functions in the European market place need to be more focused on regulatory issues affecting market access, access to technology by Canadian firms, investment issues and the business strategies of European based multinationals, and less focused on transactional support and logistics.[13] Since the opportunities for Canadian business are probably greater elsewhere, and since good private sector expertise on European markets is readily available to interested Canadian firms, this proportion should also be reduced.[14] With the WTO we can expect many more non-OECD countries - particularly in Asia Pacific and Latin America - to be bound by rules, it is here that Canada should be devoting its promotion dollars and staff resources.

While business development needs to be more closely linked with access advocacy in OECD markets, other less familiar and more complicated markets for Canadians, especially those in the emerging economies, will continue to require the primary support of government. In breaking into new markets Canadian business is often confronted with a number of host country tariff, non-tariff, and regulatory barriers as well as differences in business practices and the norms for government relations. Addressing these matters is primarily the responsibility of governments. Normally the first ones into these new markets are the established Canadian companies who, because of their experience, require little assistance in establishing contacts, organizing logistics, and setting up business deals. However, even the large firms, and certainly the niche players may need assistance in market access, investment access or protection of their intellectual property assets.

The business community so often the recipient of federal funding in the past, recognizes that there are intense pressures to reduce the fiscal burden. They have advocated a more focused trade strategy to i) apply tougher criteria for assessing the "export readiness"

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[12] Ibid, pp. 71-5. The U.S. is something of a special case in this regard. Because it provides such an overwhelming majority of novice Canadian exporters with their first experience in a foreign market, trade development programs aimed at new exporters serve an important need. Japan differs sufficiently from other OECD countries that it, too, might qualify as an exception.

[13] This may be difficult to implement, because Canadian firms may expect a high level of transactional and logistical support in the individual markets.

[14] Keith Christie, *Different Strokes: Regionalism and Canada's Economic Diplomacy*, DFAIT Policy Planning Staff Paper no.93-08, p. 10.

and ii) to move toward greater cost-recovery from participants. This has, for example, been done by the private sector through the Forum for International Trade Training (FITT), which brings together business, labour, educators and government to develop national training standards, and an accreditation and certification process to assist both Canadian individuals and firms operating or wishing to operate in an international trading environment.[15]

Greater emphasis on the advocacy of Canadian interests as a critical element of the overall international business development strategy will require reinforcement of the skills and knowledge base of trade commissioners in the field. The NAFTA and more especially the World Trade Organization have transformed the international rules of commerce, but translating these new obligations into the business environment will require vigilance and pursuit of Canadian commercial interests. Canadian missions abroad have always lobbied the host government on market access issues, but Canadian overseas representatives need the knowledge of countries are proceeding with implementation of these new agreements. In this task, the representatives will need to be supported from Ottawa, both in obtaining the detailed knowledge of these agreements and in the willingness of Ottawa to support representations about market access issues with host governments.

This emphasis on advocacy will require different approaches by representatives in the field. Instead of tallying contracts won or sales made as a result of business visits or trade missions, the trade commissioner is being asked to spend time and expend good will with contacts in order to understand and document why particular contracts were unsucessful. Was the lack of commercial success the result of discriminatory government policies in violation of international agreements, or was it as a result of commercial factors? This type of analysis is difficult to undertake, and requires investigative skills on the part of the trade commissioner. It also requires that there be appropriate incentive structures for the analyst to do the qualitative analysis and interviews instead of emphasizing simple quantitative measures such as number of business visitors.

[15] As befits a private sector that is increasingly willing to help itself, FITT is being driven by a team formed from organizations that include the Canadian Chamber of Commerce, the Canadian Federation of Labour, the Canadian Manufacturers' Association, the Canadian Exporters' Association, the Canadian Importers' Association, the World Trade Centres, the Canadian Professional Logistics Institute, and the Canadian Professional Sales Association. It was launched with the financial support of the Department of Employment and Immigration Canada (EIC) and is designed to be self-financing within four years.

CONCLUSION

The overall resources for international business development are under pressure as part of the overall policy of fiscal restraint of Canadian governments. Yet fiscal restraint implies that growth must be export-led, which will lead to increased pressure on international business development programs. At the same time the pressures for fiscal restraint are resulting in some retrenchment of the dispersion of international business development activities across the federal government and among the provinces that occurred in the 1980s. 23

Apart from the special case of Quebec, there is much more interest in a Team Canada approach to international business development. This may involve more private sector participation, either through contracting out or through fee for service activities. However in searching for the appropriate model or vehicles for international business development, it is important to recognize the strategic role of government in advocacy of Canadian commercial interests. Clearly Canadian governments have less capacity to engage in competitive export financing initiatives.

A number of factors, increased competition in the resource sectors, the need to reduce Canada's overall current account deficit, and the implementation of the Uruguay Round under the World Trade Organization are sources of pressure to expand and to diversify Canada's exports. This diversification pressure will be market-driven, but raises some challenges because of the strong role of multinational enterprises in the Canadian economy. Participation in multinational production networks may facilitate globalization of Canadian business, but foreign-based multinational firms may rely upon advocacy of their business interests by other trading powers. Sometimes this may work to the advantage of Canadian interests, other times it may not. For example a Canadian supplier to a multinational may suspect, or the Canadian subsidiary of the multinational may know, that its interests are being damaged by discriminatory practices in foreign markets, yet be unable, or unwilling to document the complaint bout foreign practices. 24

The ability of Canadian enterprises to compete effectively in the global marketplace depends upon the capability of the federal government in conjunction with the private sector to make the new international trade agreements work for Canadian interests. This will require a reorientation of a trade commissioner service which is already subject to fiscal pressures. It will also require support from Ottawa to commit resources to document impediments to Canadian business and to build cases that can be used for advocacy, either through bilateral lobbying or through formal dispute settlement channels. Although domestic framework policies influence the overall competitiveness of the Canadian economy, it will be the vigilance of the federal government in monitoring the implementation of international trade agreements and the effectiveness in advocating Canadian interests that will make or break competitive opportunities for many Canadian enterprises in the global marketplaces.