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Canadian Businesses Go Global For Growth

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Introduction

In the last 20 years, the weight of global economic activity has dramatically shifted from developed to developing countries. This year, developing countries' share of global output is on the verge of surpassing 50 per cent (up from 38 per cent in 1990), and the Organisation for Economic Co-Operation and Development (OECD) predicts by 2030 it will reach 57 per cent.[1] Much of this rapid transformation is due to political and economic reforms in developing countries, including trade and investment liberalization, that have served as catalysts for economic modernization and growth.

Economic growth throughout Asia, especially in China and India, has been spectacular. And this dramatic expansion has spilled far beyond that continent. "In 2007, just before the global financial crisis hit, no fewer than 84 developing countries grew their per capita income at a rate more than twice the OECD average. Among them were more than 20 countries in sub-Saharan Africa."[2]

1 Organisation for Economic Co-Operation and Development (OECD). (2010). *Perspectives on Global Development 2010: Shifting Wealth*. Paris: OECD Development Centre. June 16.

2 Ibid.

The Canadian Chamber is committed to fostering a strong, competitive and profitable economic environment that benefits all Canadians. This paper is one of a series of independent research reports covering key public policy issues facing Canada today.

We hope this analysis will raise public understanding and help decision-makers make informed choices. The papers are not designed to recommend specific policy solutions, but to stimulate public discussion and debate about the nation's challenges.

The massive expansion of manufacturing capacities in the developing world, particularly in East Asia, is a striking element of the global swing in economic activity. China has solidified its role as a manufacturing superpower and is the regional hub for foreign outsourced production. Many developing countries are the spokes supplying China with parts and components, raw materials and energy products. In 2009, China became the leading trade partner of Brazil, India and South Africa and eclipsed Germany as the world's largest trading nation.

The expansion of innovative capacity in a number of large developing economies, like China, India, Malaysia, Thailand and Vietnam, is another facet of the global economic transformation. These countries have a critical mass of researchers, scientists and engineers. In fact, over 40 per cent of the world's researchers are in Asia, with China accounting for half of this.[3] These countries are rapidly increasing their investment in research and development and are emerging technological powers. For instance, India is a supplier of computer software and technology-related services. "Manufacturing executives increasingly view India as a place where they can design, develop and manufacture innovative products for sale in local as well as in global markets."[4]

Global trade is being transformed by these emerging centres of affluence and economic power. In the last two decades, world trade expanded almost four-fold, while South-South trade increased more than 10 times. Regional interdependence has assumed an importance unseen before. Developing countries now account for approximately 37 per cent of global trade (up from 23 per cent in 1990), with South-South flows consisting of almost half (19 per cent, up from 7.8 per cent in 1990). The relative importance of North-North trade has slipped and now accounts for approximately 40 per cent of the world total, down from 58 per cent in 1990.[5]

Projections suggest the global economic balance of power will continue to transition toward developing countries, and their share of global trade will increase further. These trends present new challenges and opportunities.

Developing countries are increasingly competing with industrialized nations, including Canada, to gain an edge in the race for global market share, technological innovation, foreign investment and high value-added activities in global supply chains. Canadian businesses are at risk of being left behind as more aggressive nations power ahead.

At the same time, developing countries offer enormous opportunities for Canada's businesses. Many are investing significantly in infrastructure, including transportation networks, power generation, urban development and environmental protection — areas in which Canada has tremendous expertise. Developing countries require a full range of commodities, technologies and services Canada can provide.

Emerging global titans are also home to a large and rapidly growing middle class with considerable purchasing power and an increasing appetite for imported goods. The OECD predicts "globally, the size of the middle class could increase from 1.8 billion people to 3.2 billion by 2020 and to 4.9 billion by 2030. Almost all of this growth (85 per

3 United Nations Education, Scientific and Cultural Organization (UNESCO). (2009). *A Global Perspective on Research and Development*. Paris: UNESCO Institute for Statistics. October.

4 Deloitte LLP. 2010. "Manufacturing Competitiveness Index." June.

5 Organisation for Economic Co-Operation and Development (OECD). (2010). *Perspectives on Global Development 2010: Shifting Wealth.* Paris: OECD Development Centre. June 16.

cent) comes from Asia. The size of the middle class in North America is expected to remain roughly constant in absolute terms."[6]

The BRICs (Brazil, Russia, India and China), for example, have dramatically increased their consumption of the world's luxury products. "A bigger surprise is how well German cars have been selling to well-to-do consumers in emerging markets. Sales of luxury Mercedes cars to China rose by 120% in the first six months of the year, compared with the same period in 2009. Sales to Brazil, India and Russia were up by 70–80%. China is now the main market for the Mercedes S-class, a car with a price tag that is prohibitive for most rich-world consumers. Other German carmakers, such as VW and BMW, are also living well off Chinese demand."[7]

Canadian businesses, including small- and medium-sized enterprises (SMEs), are taking notice. Many are looking beyond traditional markets for future growth. In 2009, for the first time, countries other than the United States were the aggregate recipients of more than a quarter of Canadian merchandise exports.

There is tremendous scope for further expansion. Developing countries remain relatively untapped by many Canadian exporters. In 2009, only three per cent of Canada's merchandise exports went to China, accounting for just one per cent of Chinese goods imports. Similarly, just 0.6 per cent of Canada's merchandise exports headed for India, supplying just 0.8 per cent of India's import demand.[8]

"In a world of traditional and emerging giants, independent countries like Canada — countries with small populations — risk being swept aside, their influence diminished, their ability to compete hampered. That may sound dramatic, but the stakes are that high. We will have to be smart, focused, agile, creative and dogged in the pursuit of our interests."[9]

6 Kharas, Homi. (2010). "The Emerging Middle Class in Developing Coutries." *Working Paper No. 285*. Paris: OECD Development Centre. January.

7 The Economist. (2010). "Germany's exporting prowess is leaving the rest of the euro area behind." July 8.

8 Asia Pacific Foundation of Canada. (2010). *Canada's Market Share in Asia*. Vancouver.

9 Department of Foreign Affairs and International Trade Canada. (2005). *Canada's International Policy Statement: A Role of Pride and Influence in the World*. Ottawa. April 19.

Canada’s Exports Continue to Diversify Beyond the United States

In 2009, Canada exported $436.3 billion worth of goods and services — $369.5 billion in goods and $66.7 billion in services (commercial, travel, transportation and government).[10]

Ten countries accounted for roughly 87 per cent of total merchandise exports, or seven of every eight dollars — the United States ($271.2 billion), the United Kingdom ($12.1 billion), China ($11.2 billion), Japan ($8.3 billion), Mexico ($4.8 billion), Germany ($3.7 billion), South Korea ($3.5 billion), the Netherlands ($2.8 billion), France ($2.7 billion) and India ($2.1 billion).

The European Union as an integrated block was the destination of $32.3 billion worth of Canadian products, or 8.7 per cent of total merchandise exports.

Out of the approximately 1,300 goods Canada exported in 2009, 28 products accounted for nearly half of Canadian merchandise exports. The top 10 export categories were crude oil ($42.7 billion), passenger cars ($26.6 billion), petroleum gases ($18.2 billion), non-crude oil ($12 billion), aircraft and parts ($7.8 billion), wheat and meslin ($6 billion), coal ($5 billion), unwrought aluminum ($4.9 billion), gas turbines ($4.8 billion) and sawn lumber ($3.9 billion). Canada’s comparative advantage remains in commodity intensive sectors.

Commercial services (i.e. communications, financial, computer and information, research and development, construction, management, architectural, engineering and audio-visual) are the largest of the major services categories[11] accounting for 56.7 per cent of services exports (or $36.7 billion). Sixty-one per cent of commercial services exports ($22.5 billion) were destined for the United States; 17 per cent ($6.3 billion) for the European Union.

While continuing to benefit from the close proximity of the U.S. market, Canadian businesses are expanding their trade ties with the rest of the world, and at a faster rate. Thus, trade with the United States as a share of total trade has been declining in recent years. In 2009, countries other than the United States were the destination for nearly 30 per cent of Canada’s exports of goods and services, up from 21.5 per cent in 2005. For merchandise trade only, the non-U.S. share jumped from 18.2 per cent to 26.6 per cent. For services trade only, the non-U.S. share increased from 43.4 per cent in 2005 to 47.6 per cent in 2009.

One reason for the decline in the portion of exports destined for the United States is increased competition south of the border. China has replaced Canada as the largest exporter to the United States, as has the European Union as a whole. Other reasons include the rise in the value of the Canadian dollar relative to the U.S. dollar, slower economic growth in the United States relative to the developing regions of the world, and the decline in transportation and communications costs that makes it more attractive for Canadian businesses to trade intermediate inputs and services globally. The increase in the share of non-U.S. trade also reflects increased global demand for Canadian commodity exports.

10 Department of Foreign Affairs and International Trade Canada. (2010). *Canada’s State of Trade: Trade and Investment Update 2010*. Ottawa. June 24.

11 The other major services categories are travel (which accounts for 24.1 percent of services exports, or $15.6 billion), transportation (16.2 percent or $10.5 billion) and government services (2.9 percent or $1.9 billion).

In 2007 (the most recent data available), 36.1 per cent of Canadian merchandise exports to the United States were intra-firm (i.e. products traded within the ambit of multinational enterprises), primarily goods traded between U.S. parent companies and their affiliates. The transportation equipment sector accounted for 45.1 per cent of Canadian merchandise exports by U.S. affiliates to the United States. Affiliate sales are also important for services.

In most cases, final exports include intermediate inputs that have been imported. Goods-in-the-making may go back and forth across the border many times. A good example is automobiles built in North America which may traverse the Canada-U.S. border six or seven times in various stages of production. According to Statistics Canada, in 2004 (the most recent data available) imported inputs accounted for 27.3 per cent of the value of Canadian exports, on average, ranging from a high of 51 per cent for autos to a low of 12 per cent for energy. Business and financial services have a low import content of around 10 per cent.[12]

A Profile of Canadian Exporters

In 2007 (the most recent data available), some 45,260 establishments in Canada exported to foreign markets.[13] Approximately 86 per cent of exporting establishments were small businesses employing fewer than 100 employees. These firms accounted for 45 per cent of the total value of exports. Exporters employing 200 employees or more represented a minority of exporters (6.2 per cent) but accounted for 43.5 per cent of export sales.

As noted, the most remarkable feature of Canadian exporter dynamics has been the gradual shift away from the U.S. In 2007, about 60 per cent of all exporters (26,960) relied exclusively on the U.S. market, down from 70.2 per cent in 1999. Almost 20 per cent (8,446) concentrated on non-U.S. markets, up from 12.4 per cent in 1999. Approximately 22 per cent of exporters (9,854) shipped goods to both the United States and abroad, up from 17.4 per cent in 1999.

The average number of markets served per exporter increased from 1.7 in 1999 to 2.5 in 2006.[14] Over the same time period, there was a steady increase in the number of multi-country exporters. In 1999, only 14 per cent of Canadian exporters shipped their products to between two and five destinations. By 2006, this had risen to 18.6 per cent. Similarly, in 1999 four per cent of Canadian exporters shipped to more than six destinations. In 2006, 8.3 per cent did so.

SMEs have been at the forefront of firms entering new markets, especially markets in Asia. In 2001, “SME exporters made up 35 percent of total export sales to Asia; in 2006, this share reached 47 percent — almost as much as the contribution by large-sized exporters.”[15]

SMEs have increased their share of Canadian exports in every region of the world. In 2006, SMEs accounted for 34 per cent of export sales to the United States, up from 31 per cent in 2001. In Europe, they accounted for 38 per cent of the value of exports, up from 27 per cent in 2001. In Latin America, SMEs saw their share of export sales rise to 43 per cent from 40 per cent in 2001.

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12 Cross, Philip and Ziad Ghanem. (2008). “Tracking value-added trade: Examining global inputs to exports.” *Canadian Economic Observer*. Vol. 21, No. 2. Ottawa: Statistics Canada. February 15. Also, Cross, Philip and Ziad Ghanem. (2005). “Canada’s natural resource exports.” *Canadian Economic Observer*. Vol. 18, No. 5. Ottawa: Statistics Canada. May 12.

13 Nadeau, Marc, Simon Préfontaine and Lili Mei. (2010). “Canadian Trade Review: A Profile of Canadian Exporters.” *Analytical Paper*. Ottawa: International Trade Division, Statistics Canada. January 27.

14 Department of Foreign Affairs and International Trade Canada. (2010). *Canada’s State of Trade: Trade and Investment Update*. Ottawa. June 24.

15 Ibid.

Many small businesses are taking advantage of modern technology, like the Internet, to boost their sales overseas. There are an estimated 1.8 billion Internet users in the world, and the number is growing rapidly. About 85 per cent of the world's online population has used the Internet to make at least one purchase.[16] With the assistance of express carriers and package delivery companies, many small businesses are able to reach global markets without having to establish sales teams and distribution networks in foreign countries. The Internet has also facilitated the slicing up of global supply chains, creating more opportunities for smaller companies to find profitable niches as suppliers for larger multinationals.[17]

Creating the Conditions For Businesses to Take Advantage of Global Market Opportunities

It is important to recognize that Canada is only 2.3 per cent of the world economy and has only 0.5 per cent of the world's population. Maintaining the dynamism of Canadian businesses, the competitiveness of the Canadian economy and the standard of living of Canadians requires an ambitious, comprehensive and forward-looking strategy to boost our country's trade and investment ties with other nations.

There is also the recognition that Canada's trade is, and will continue to be, concentrated in the U.S. market for the foreseeable future. Canada and the United States have similar time zones, language, institutions, cultures, and relatively short trading distances between markets. The top priority of policymakers must be to mitigate risks within the Canada-U.S. economic relationship. It is vital to Canada's economic prosperity that national borders do not impede the safe and efficient flow of goods and people. The strong link between security and trade must be recognized, and a proper balance struck.

Elsewhere, robust political engagement is required to foster economic partnerships and remove the obstacles that stand in the way of enhanced, mutually beneficial trade and investment. Free trade agreements can help slash red tape, reduce transaction costs, streamline rules, simplify customs processes, reduce tariff and non-tariff barriers, provide arbitration procedures and increase transparency for businesses of all sizes. They are particularly important for small- and medium-sized businesses that lack the resources and foreign business partners to navigate and successfully participate in foreign markets.

16 Internet World Stats. (2009). "World Internet Users and Population Stats." December 31. Available at: **www.internetworldstats.com**. Also, The Nielsen Company. (2008). "Over 875 Million Consumers Have Shopped Online — The Number of Internet Shoppers Up 40% in Two Years." *Nielsen Global Online Survey*. New York. January 28.

17 Griswold, Daniel. (2008). *Opening the World of Export Opportunity to U.S. Small Businesses*. Statement given before the United States House of Representatives Committee on Small Business on "Small Business Exports in the Current Economic Climate," January 18, 2008. Washington, DC.

The federal government is working to advance Canada's interests by opening new opportunities for Canadian exporters, investors and innovators. Recently, Canada concluded free trade agreements with the states of the European Free Trade Association (Iceland, Norway, Switzerland and Liechtenstein), Peru, Colombia, Jordan and Panama. Negotiations are ongoing with the Caribbean Community, the Dominican Republic and the Central American countries of El Salvador, Honduras, Nicaragua and Guatemala. These are in addition to free trade agreements with Chile, Costa Rica, Israel, the United States and Mexico. Canada is also advancing free trade negotiations with Korea and the Ukraine and is exploring the possibility with Morocco.

In the Asia-Pacific region, Canadian businesses continue to strengthen their level of engagement, and the government of Canada has moved to build stronger economic relationships. Canada and India are making good progress in scoping the content of a Comprehensive Economic Partnership Agreement, and Canada has concluded negotiations on high standard Foreign Investment Protection Agreement (FIPAs) with China and India. Such agreements provide a solid foundation for cultivating stronger commercial linkages.

Canada's *Asia-Pacific Gateway and Corridor Initiative* is part of a strategy to expand the international and intercontinental movement of goods and people from Canada's gateways to key markets in Asia and the Pacific Rim. Federal and provincial government leadership and private sector cooperation "have combined to take a world class port in Vancouver and to connect it to world class transportation systems to help grow the economy today and position it for even greater economic prosperity in the future."[18] This is an ongoing success story and a model that is being adapted in other areas of the country.

Through *Blue Sky* air transport liberalization agreements, the federal government is encouraging the development of new markets for passenger and all-cargo services to support and facilitate Canada's international trade objectives. It has signed Open Skies agreements with a number of countries, and can build on this progress by further liberalizing civilian and cargo air transport between Canada and East Asia.

The Canadian government is also moving to strengthen ties with Europe. Canada and the European Union are expected to sign a free trade agreement in 2011. The proposed Comprehensive Economic and Trade Agreement, the most ambitious and broad since NAFTA, includes trade in goods and services, investment, government procurement, regulatory cooperation, intellectual property, dispute settlement, temporary entry of business persons, competition policy, labour and the environment. Bilateral goods and services liberalization could generate C$34 billion in additional real income by 2014.[19] A Canada-EU agreement would send a resounding message to the rest of the world that, instead of turning inwards, Canada has a confident view of the role it can play in the global economy.

Despite our successes, much more needs to be done. New political energy must be injected to complete the World Trade Organization's (WTO) Doha Round of multilateral trade negotiations to bridge gaps and ensure the final agreement generates new trade flows, reduces the cost of doing business across national borders and increases predictability for companies. The Washington-based Peterson Institute for International Economics estimates that a successful conclusion of the Doha Round could increase world output by US$165–$283 billion annually.[20] Canada's export-oriented farmers and manufacturers have much to gain. Sector-specific agreements

18 Green, Fred. (2009). "World Class Transportation Infrastructure: A Key to Future Canadian Competitiveness." An article produced for the Canadian Chamber's *Canada's Thought Leaders Series*. October.

19 The European Commission and the Government of Canada (2008). "Assessing the Costs and Benefits of a Closer EU-Canada Economic Partnership." Ottawa: Foreign Affairs and International Trade Canada. October. The joint study estimates total EU goods and services exports to Canada will increase by €17 billion (approximately $C23 billion) by 2014, while Canadian exports to the EU will rise by €8.6 billion (about C$11 billion) by 2014.

20 Hufbauer, Gary C., Jeffrey J. Schott, and Woan Foong Wong (2010). "Figuring Out the Doha Round." *Op-ed in Vox-EU.org*. Washington: Peterson Institute for International Economics. February 22.

in chemicals, electronics / electrical goods and environmental goods offer the possibility of even greater global access for Canadian companies. Meaningful liberalization of services could further expose Canada's services sector to international markets. A successful and ambitious conclusion to the Doha Round will give added impetus to the recovery and spur global economic growth and prosperity.

When so much of Canada's prosperity depends upon trade, continued vigilance against protectionism is imperative. Protectionist sentiments are likely to increase with low growth, persistent unemployment and mounting pressures ongovernment finances. The impulse for protectionism may be understandable; however beggar-thy-neighbour policies can derail the recovery, drag down future growth and undercut the ability to increase incomes. They inflict the greatest damage on the world's most vulnerable. Canada must collaborate through multilateral institutions and work with other international partners to stop protectionism and promote rules-based trade liberalization.

Since Canadians' main customers are other Canadians, the federal government must continue to work with provincial and territorial governments to remove remaining interprovincial barriers to trade in goods and services.

The Canadian Trade Commissioner Service (TCS) Has an Important Role to Play

To export successfully, businesses require up-to-date market information on foreign countries and help in identifying new customers, finding reliable suppliers, developing distribution channels in foreign markets, dealing with regulations and learning how to adapt a product to local market conditions. The TCS plays a crucial role in this regard.

About five per cent of firms that export to the U.S. market access TCS assistance, compared to 12 per cent that export to Europe, 13.5 per cent that export to Asia-Pacific and 16 per cent that export to Latin America.[21]

Companies that access TCS assistance export, on average, 18 per cent more compared to exporters that do not use the service. Additionally, they export to more markets and tend to be more diversified in their product mix.

The TCS must continue to have adequate financial and human resources to remain effective.

21 Department of Foreign Affairs and International Trade Canada. (2010). *Canada's State of Trade: Trade and Investment Update*. Ottawa. June 24.

An Agenda for Business Prosperity in the New Global Economy

While governments play a crucial role in creating the conditions for businesses to take advantage of global market and investment opportunities, the onus is on businesses to craft a sustainable competitive advantage to capitalize on these opportunities.

To succeed in a highly competitive global environment, businesses must:

- Build internationally recognizable brands.
- Cultivate relationships with businesses worldwide.
- Work with government to penetrate new markets, particularly in emerging economies.
- Champion unencumbered global trade and investment.
- Constantly improve their products and practices.
- Significantly increase investment in R&D and in machinery and equipment (particularly information and communications technology).
- Continually upgrade the skills of their workforce.
- Differentiate their products and services from the competition's by focusing on adding new value.
- Improve how they manage supply chain relationships and leverage their involvement in global value chains.
- Relentlessly focus on improving business operational efficiency and on reducing costs.

Innovation — Key to a Successful Business Strategy

Businesses of all sizes — in both the goods-producing and service sectors — must constantly innovate to improve productivity and climb the value-added chain to compete and triumph on the global stage. Canadian businesses are well behind other countries, including the United States, the United Kingdom and Germany, in investing in machinery and equipment, particularly information and communications technology (ICT). Canadian businesses also spend less on research and development (R&D) compared to their counterparts in other countries. "If Canada truly aspires to be a global leader, its companies must do more."[22]

The Expert Panel on Business Innovation stated: "Canadians should be concerned about the productivity of our export-oriented economy as competition from China and other emerging economies intensifies. Strong productivity growth is the way to remain internationally competitive with a rising standard of living."[23]

Global Value Chains — a Source of Competitive Advantage

Production processes are increasingly geographically fragmented, and supply chains provide the integration. Developing global supply chain relationships enables businesses — large and small — to engage in global commerce, source optimally, reduce costs, and gain access to skilled workers and technological expertise. "If a company can succeed in creating greater value and/or achieving lower

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22 Ballmer, Steve. (2009). "Investing in innovation will fuel Canada's economic growth." *The Globe and Mail*. October 16.

23 The Expert Panel on Business Innovation. (2009). "Innovation and Business Strategy: Why Canada Falls Short." Ottawa: The Council of Canadian Academies. June.

costs than its competitors, then the supply chain has become a strategic competitive advantage."[24] "Small firms that succeed in gaining access to a supply chain, and are able to retain their position in a supply chain despite competition, typically have more "staying power" than their peers."[25]

Managing supply chains requires a high level of agility and responsiveness. The "need for speed has created an imperative for tighter relationships between businesses and their vendors."[26]

Branding — Important in Creating Business Value

The global economic might of businesses in advanced economies is being challenged like never before. The Boston Consulting Group lists 100 companies in 14 emerging-market countries that have attained global leadership positions or are on their way to establishing a sizeable global footprint. They have combined revenue of US$1.5 trillion. Many prosper by selling to other developing countries.[27] Some are creating well-respected, highly valuable brands. The Millward Brown Optimor *BrandZ™ Top 100 Most Valuable Global Brands 2010* ranking now includes 13 brands from emerging markets (Brazil, Russia, India, China and Mexico), compared with just one in 2006. Only three Canadian brands made the list.

Strong brands create and sustain a competitive advantage by commanding a price premium, ensuring higher demand and market share, protecting businesses from risk and positioning businesses for international growth. "CEOs and CFOs around the world should be asking their brand and marketing teams how they can leverage brand to both protect and grow the business."[28]

Our country also needs an overarching Canadian brand under which it can consistently market its entire cross-sector value proposition to the world.

24 Enporion, Inc. (2002). "Dynamic Commerce & Your Supply Chain: Gaining a Strategic Competitive Advantage." *An Executive White Paper*. Tampa, Florida. January.

25 Organisation for Economic Co-Operation and Development (OECD). (2010). "Supply Chains and the OECD Guidelines for Multinational Enterprises." *Business for Social Responsibility Discussion Paper on Responsible Supply Chain Management*. Paris. June 30.

26 Bayles, Fred. (2006). "Supply chain management takes center stage." Microsoft Midsize Business Center. April 27. Available at: **http://www.microsoft.com**.

27 The Boston Consulting Group. (2009). *The 2009 BCG 100 New Global Challengers: How Companies From Rapidly Developing Economies are Contending for Global Leadership*. January.

28 Campbell, Eileen. (2010). "Tech Triumphs with Google, Microsoft, Apple and IBM Scoring Top Marks." *Press Release*. Millward Brown Optimor. April 28.

Conclusion

The world of tomorrow will be different from today. The economic balance of power is rapidly shifting, and world trade is being transformed. "Over the next forty years, low- and middle-income countries in Asia and Latin America will become an immensely powerful force in the world economy."[29]

Globalization is unleashing fierce competition. Emerging economic powerhouses, like China and India, are quickly expanding into higher value-added activities. Developing countries account for an increasing share of R&D and are rapidly absorbing technology from abroad. Canadian businesses must differentiate their products and services from the competition's to maintain and grow market share.

Canadian businesses must also cultivate relationships with businesses worldwide. Various stages of production are increasingly being carried out wherever the necessary skills and materials are available at a competitive cost. Canadian businesses must plug into global value chains to grow and prosper.

Immense consumer and industrial markets in the developing world offer tremendous opportunities for Canadian companies. These countries are investing heavily in infrastructure, including transportation networks, power generation, urban development and environmental protection — areas in which Canada has tremendous expertise. They require a full range of commodities, technologies and services Canada can provide.

Expanding trade with other countries does not have to come at the expense of Canada-U.S. trade. The Canada-U.S. relationship is the closest and most extensive in the world. Due to its size and proximity, the United States will remain Canada's most important trading partner. It is vital that Canada continue to deepen its commercial and investment ties with the United States, and work to ensure that national borders do not impede the safe and efficient flow of goods and people. We must also continue to engage Canada's other NAFTA partner, Mexico, the fifth largest market for Canadian exports.

As our businesses respond to changes sweeping the global economy, we must be both strategic and bold. What is at stake is nothing less than the future prosperity of every Canadian.

29 Dadush, Uri and Bennett Stancil. (2010). "The World Order in 2050." *Policy Outlook.* Washington: Carnegie Endowment for International Peace. April.

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